Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1984

Nova Scotia

Honourable A.R. Donahoe, Q.C.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1984, my Annual Report to the House of Assembly, in accordance with Section 8 of the Auditor General Act.

Respectfully submitted

O.P. Cormier, F.C.A.
Auditor General

Halifax, Nova Scotia
March 8, 1985

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INTRODUCTION

Introduction

Since this is my first Annual Report as Auditor General of the Province of Nova Scotia, I felt it might be appropriate to depart somewhat from the presentation of prior reports, and to provide more background on the role of the Office.

Accordingly, more detail is included relating to the audits and engagements that are performed, and those that are done by other auditors. Additional responsibilities fulfilled by the Office and how these are carried out are described. There is also a discussion of what legislative requirements and staff resources are considered suitable for the adequate functioning of this Office.

There is a presentation of the accountability process within government, and the role of the Office of the Auditor General in this process. Integral parts affecting our fulfillment of this role are the Auditor General Act, the staffing and resources of the Office, and the performance of the Public Accounts Committee, all of which are dealt with.

To provide a further perspective on the role of the Auditor General, this report contains some highlights in the development of the Office during the term of my predecessor, Arnold Sarty. Certain key considerations relating to the functioning of this Office are elaborated upon, particularly where there is a requirement for action by others.

There are three significant matters which warrant brief mention here. Each of these is developed further in the report.

- This past year has been one of transition, due primarily to the extended period between the retirement of Mr. Sarty on October 31, 1983 and my appointment on September 20, 1984.

  There was an excessive delay in making the appointment, and it contributed to a degree of uncertainty that this Office should not, except under unusual conditions, be expected to experience. The regular audit assignments were performed, generally on time, due to the excellent application and contribution by staff. However, the extent to which the Office could undertake special assignments, and fulfill certain planning and development needs, was somewhat restricted.

In early calendar year 1985, approval from Management Board was received to fill certain senior staff positions, and initiate some staff realignments. This will restore the staffing complement in place two years ago, and provide adequate resources to fulfill satisfactorily the Office's audit mandate.

- A considerable amount of time was devoted during the past several months, to the matter of expenses for members of the House of Assembly, flowing from an audit report of November 1983. I am pleased to state that the adoption of appropriate Regulations and Guidelines, plus improved administrative routines has resolved the basic problems which we reported. Matters concerning inadvertent overpayments have also been resolved.

  This report contains an article describing the background to this situation, the process of dealing with the various matters involved, and my opinion on the resolution of our audit findings and recommendations. I trust, however, that the matter of members' expenses will not unduly detract from other matters requiring attention in this report.

- Considerable detail is included relating to the Auditor General Act, the Public Accounts Committee, and the organization and structure of this Office. An attempt is made to portray the government financial accountability process which contains four key elements: the Estimates, the Public Accounts, the Audit function, and the review by the Public Accounts Committee.

  It is vital that all those who participate in the administration of government, those who have the responsibility to assess and comment on the functioning of government, and other interested observers recognize and appreciate the vital role of each of these four elements. The proper functioning of the entire financial accountability process requires effectiveness in each of the four components.

* * * * * *

I would like to express my gratitude to the officials and staff of the government departments and agencies for the high degree of assistance and cooperation extended to our staff members in the conduct of audit assignments. Also, I express a special thanks to Civil Service Commission staff for their support in recruitment and training endeavours for our Office, and to Management Board and the Departments of Finance and Government Services for assistance with various administrative matters.

The audit and administrative staff of the Office must also be acknowledged for their fine contribution and performance during a year marked by extended periods of understaffing due to vacancies, and several lengthy staff illnesses.

* * * * * *

It should be clearly understood by the reader of this report, that the mode of reporting as required by Section 8 of the Auditor General Act is what might be termed "reporting by exception". Thus, it is negative audit findings that for the most part are included in the Annual Report. In common with a concern felt by other legislative auditors, I consider it relevant to point this out, so that an excessively negative impression is not derived from a reading of the report.

In some instances, we do report positive audit results in the Annual Report, particularly where negative findings have been previously mentior ed. The majority of our departmental audit reports contain positive findings and conclusions. These are not generally dealt with in the Annual Report.

SUMMARY

Summary — 1984 Annual Report

This section contains brief descriptions of significant matters included elsewhere in the report. This summary indicates key findings, concerns, conclusions and recommendations.

Accountability Process

An attempt has been made to deal with the four aspects of the accountability process — the Estimates, the Public Accounts, the Audit responsibility, and the review by the Public Accounts Committee.

Each of these four areas is discussed, and the latter two are developed at more length. This has been done so that each is not seen in isolation, but can be appreciated in terms of its contribution to the whole process. It is hoped that this treatment will serve to support the need for changes where improvements seem necessary.

Public Accounts

There has been a noticeable improvement in the format and disclosure of the Statement of Financial Position, and the Statement of Revenues and Expenditures in the Public Accounts of the Province. This is particularly so for the fiscal years ending March 31, 1983 and 1984. Previously the Public Accounts had been seriously inadequate in both disclosure and presentation, and our Annual Reports for the years 1980 to 1982 included relatively strong criticisms relating to them.

We can expect further developments and improvements in the underlying accounting policies and disclosure practices for governments. The Canadian Institute of Chartered Accountants, through its Public Sector Accounting and Auditing Committee, has since 1981 been developing recommendations and statements relating to objectives and standards in this area.

At present there are two significant items which require attention. These are the provision for losses on loans and guarantees by the Province, and the use of forecast data in the Statement of Revenues and Expenditures.

Auditor General Act

The Auditor General Act for Nova Scotia, proclaimed in 1973, was at that time possibly the most advanced legislation in Canada dealing with the functioning of a legislative audit office.

Since that time there have been numerous developments in the roles assumed by Legislative Auditors, and in the provisions of the various legislative audit acts in other jurisdictions within Canada.

I will be advancing suggestions for amendment to this Act within the next few months for consideration by the Legislature in 1986. These changes fall under two principal categories.

> Independence — in which improved provisions should be made for the appointment of an Auditor General by use of a Legislative Committee, and also provisions to ensure that the financial and staffing resources of the Office are sufficient to carry out its mandate;
>
> Audit Scope — Provision should be made for the audit of transfer payments by means of inspection audits. The audit responsibility should be formalized with respect to expenditures being made with due regard for economy and efficiency, and the provision of appropriate measures of effectiveness. The Auditor General should also be assigned the responsibility for the audit opinion on the financial statements of the Province.

Public Accounts Committee

In several annual reports, my predecessor commented on the largely ineffective manner in which the Public Accounts Committee has performed. On each occasion he advanced specific recommendations for improvement, which are critical to the effective functioning of this important Committee, and I repeat them:

- the role and responsibility of the Public Accounts Committee should be formally enunciated;
- there should be provision that the Committee meet other than when the House of Assembly is sitting;

— the Chairman of the Public Accounts Committee should be a member of the official Opposition;

— the work of the Committee would be better organized by the use of formal agendas, and the provision of required background material to matters being discussed;

— insofar as possible, the Public Accounts Committee should concentrate its attention on significant issues of management and financial administration, rather than on isolated, unimportant, individual transactions;

— the Public Accounts Committee should prepare a substantive report to the Legislature annually; and

— there must be effective procedures for follow-up of the Committee's recommendations.

Accounting Weaknesses and Controls

This report includes comments on several situations in which there were inadequate accounting controls. These were mainly in smaller operations where it is difficult to obtain the degree of segregation of duties and independent check normally sought.

However, we note situations in which fraudulent activity has occurred because of these weaknesses, and we again point out that in spite of size, every effort must be made to achieve a maximum degree of control by a proper segregation of duties, regular independent reconciliations, and independent checks or audits on a surprise basis.

Computer and Related Audits

Development of the computer auditing capability of this office, and our review of computer installations has continued. During the past year we performed reviews of 11 computer installations. For three we found that controls in place were adequate, but for eight installations, we encountered weaknesses, certain of which were serious control deficiencies.

The overriding conclusion which must be emphasized is that insufficient attention is paid to security and control measures. The most prevalent is the absence of a comprehensive security program which, in our view, is due to a lack of appreciation of the need for adequate security.

In 1982, we described our concerns with respect to the overall management of computer resources within the Province. In late 1982, and also in late 1983, two independent studies of the computer resource management function were performed. In both cases, these pointed to a lack of adequate policies and standards, an absence of coordinated long term plans, and related matters; and these were consistent with our reported findings.

Steps have been taken by Management Board to structure both a committee and a staff, with responsibilities to address the questions of policy, resources, and long-range plans. I am pleased to note the positive reaction on the part of government to the preparation of a computer resource policy, and the embarking upon a course of action to address the deficiencies with respect to computer resource management.

Expenses of Members of the House and Others

The matter of expenses of members of the House of Assembly, Members of the Executive Council, Deputy Ministers and ministerial assistants is dealt with in this report, as a follow-up to the article in the 1983 Annual Report.

This year's article details certain aspects of the audit, our audit report, and the process followed to address the audit findings and conclusions.

There are four principal matters dealt with:

1) *Regulations and Guidelines* — the Legislature Internal Economy Board has issued for 1985, revised Regulations and Guidelines for expenses of the members of the House of Assembly, and revised Management Manual Bulletins were issued in 1984 for Ministers, Deputy Ministers and ministerial assistants.

In my opinion, these now provide adequate definition and description of expense entitlements, and the required process for claiming and reimbursement. They deal satisfactorily with the conclusions and recommendations relating to ambiguities and incompleteness in the Regulations and Guidelines in effect at the time of our audit in 1983.

2) *A Specific Member's Expense Claims* — certain expense claims of one member were referred to the Attorney General for consideration, but no further action was deemed necessary by the Attorney General on this matter.

   However, as Auditor General, I find it difficult to accept the explanations and documentation provided by the member in response to our audit findings. The documentation submitted was, in my view, inappropriate for the expenses claimed, and unacceptable from an audit standpoint.

3) *Expense Claims of Five Members* — it was necessary to obtain further information for some expenses paid to five Members of the House.

   For certain of these payments, reasonable explanations were provided by the members. I was satisfied with the explanations received, and that the members were entitled to reimbursement for these expenses.

   The remainder of these represented overpayments, due to inadvertence, clerical error, or misinterpretation of entitlements. In all cases, satisfactory arrangements have been made for repayment of these amounts.

4) *Expense Claims of Malcolm A. MacKay* — on the basis of a letter dated October 28, 1984 from the Speaker of the House of Assembly, we conducted a further review of Mr. MacKay's expenses for the period January 1, 1981 to September 30, 1984. This was in addition to our review of his expense claims for the period January 1, 1982 to August 31, 1983, commented upon in our report to the Speaker of November 29, 1983.

   In my opinion Mr. MacKay did not qualify for outside member status, and should not have been provided expense allowances on this basis.

Other Audit Assignments

Our office performed three such assignments during the year, and each is briefly described below.

For the Department of Health, we undertook a review of the audit approach used by the Department in their audits of hospital final settlement claims. We assisted in the development of improved audit procedures and techniques for their audit staff.

We performed an audit of the Special Fund set up for financing the provisions of the "Canada — Nova Scotia Agreement on Oil Substitution and Conservation", from its inception in 1977 to March 31, 1984.

Under the provisions of Section 16 of the Auditor General Act, we conducted a review in one of the crown agencies of government, where I am not the appointed auditor. It was at the Nova Scotia Liquor Commission, where we examined from an operational standpoint, performance in selected aspects of six functional areas of the Commission. Our overall conclusion was positive. We determined that the areas examined were very well managed, and we were impressed with the manner in which responsibilities were fulfilled.

Financial Matters

Additional appropriations, and particularly those approved after the fiscal year-end, are again reported upon. The amount of these is considerably less than prior years for ordinary expenditures, but higher for capital expenditures.

There is a commentary relating to the magnitude of the net debt, and the operating deficit, which includes a review of certain key revenue and expenditure items over a 10 year period.

The need for restraint by government and taxpayers alike, in their demands for programs and services, is stressed. Finally the requirements for sound analysis of program and service requests, together with adequate financial administration and control are pointed out.

* * * * * *

AUDIT RESPONSIBILITIES

Audit Responsibilities

LEGISLATIVE REQUIREMENTS

The responsibility for audit of the accounts of the Province by the Auditor General is set forth in Section 7 of the Auditor General Act. The Auditor General is required to examine in such manner and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

— all public money has been fully accounted for;

— money has been expended for the purposes for which it was appropriated by the Legislature;

— the accounts have been properly kept; and

— essential records and procedures to safeguard and control public property are maintained.

The annual reporting requirement of the Auditor General to the House of Assembly is found in Section 8 of the Act. There must be brought to the attention of the House every case in which he has observed that:

— any person has wilfully or negligently omitted to collect or receive money belonging to the Province;

— public money was not duly accounted for and paid into the Consolidated Fund;

— any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;

— an expenditure was not authorized or not properly vouched or certified;

— there has been a deficiency or loss through fraud, default or mistake of any person;

— a special warrant authorized the payment of money; and

— any other case that the Auditor General considers should be brought to the notice of the House.

Sections 7 and 8 of the Auditor General Act are reproduced as Appendix I of this report.

SCOPE OF EXAMINATION

The scope of audit activity for this Office can be classified under four distinct headings, each of which is described in the following paragraphs.

1) *Auditor General Act, Section 7 Requirement*

To meet the legislated requirements of Section 7, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, the accounting records, and other supporting evidence.

All systems in all departments are not subject to audit on an annual basis. In addition, extensive use is made of sampling techniques, so that often representative samples of transactions are subject to audit. However, the audit work undertaken is selective enough, and directed toward sufficient activity in major departments to fulfill the mandate prescribed in Section 7.

2) *Audit of Crown Agencies*

The Auditor General is the auditor of 32 crown corporations, boards, commissions, and funds. These appointments flow from the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix II of this report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations, the annual audit of which is performed by a chartered accountant other than the Auditor General. A schedule of these is Appendix III.

Under Sections 16 and 17 of the Auditor General Act, I am furnished annually with the audited financial statements, and all audit reports prepared by the auditors of these agencies and corporations. In addition, the Auditor General may conduct any such additional examinations and investigations of the records and operations of the agency as he deems necessary.

In this connection, it has been the practice of this Office to periodically review selected aspects of the operations of these crown agencies and corporations. It has not been possible, since this provision was legislated in 1973, to conduct reviews in all such agencies and corporations.

This was a matter of concern to my predecessor, and was mentioned in both his 1981 and 1982 Annual Reports. During the past year only one such examination was undertaken, at the Nova Scotia Liquor Commission, as reported on page 70.

4) *Other Audit Assignments*

Apart from additional audit examinations in crown agencies, performed under the Section 16 mandate, this Office usually conducts one or more special audit reviews each year. Recent examples of these are:

— in 1981, an examination of physical security for the computer installation in the Systems and Computer Services Division of the Department of Government Services;

— in 1981, an examination of three areas of administration at the Victoria General Hospital;

— in 1982, a review of the Management Planning and Budgeting System of Government; and

— in 1983, an extensive review of travel expenses of members of the Legislature, Ministers, Deputy Ministers and ministerial assistants.

In the current audit year, two small assignments were undertaken in the Departments of Health, and Mines and Energy, refer to page 69. As well, a considerable amount of time was devoted to various matters flowing from the 1983 audit of travel expenses, as reported upon separately in this report on page 57.

Federal Provincial Cost Sharing Claims

My Office has the responsibility to certify claims for various cost sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1984, a total of 534 claims were audited, relating to 13 separate agreements involving 87 projects.

It is our responsibility to determine that the terms of the agreements have been complied with by the Departments concerned, and that the amounts claimed are in accordance with the agreements.

* * * * * *

Relating to the scope of audit responsibilities assigned to this Office, there are several relevant matters which warrant discussion. These impact on the ability of the Office to fulfill all of its responsibilities.

There has been a significant increase in recent years in the statutory audit requirements that must be met by this Office. This is due not only to the increasing size of government and its expenditures, but also to the computerization of systems within agencies and Departments of Government. These factors pose greater and more complex demands, requiring an audit staff of significantly higher calibre, both with respect to ability and experience than was appropriate five to ten years ago.

The 1984 audit year which extends from October 1, 1983 to September 30, 1984 was in many respects a difficult year for the Office. We operated through most of this period with an acting Auditor General, and with additional understaffing at both the senior management and the general audit staff level. Accordingly, it was not possible to adequately discharge many of the administrative responsibilities of the Office. Furthermore, it reduced our ability to conduct audits of crown agencies and corporations, and special examinations, as noted in items 3 and 4 above.

In his 1982 Annual Report, dated January 17, 1983, my predecessor stated *"I am pleased to report . . . that my office reached its approved staff complement in the closing months of the current audit year. . . . If staff can be maintained at the approved level and barring the emergence of any new large mandatory audit assignments, I should be in a position to undertake more discretionary audits under Section 16 of the Auditor General Act during the next audit year".*

It is unfortunate the staffing levels could not be maintained, and did not permit this expanded audit effort, which I consider essential to the fulfillment of the Office's responsibility.

However, as previously noted in the Introduction of this report, Management Board has recently approved a staff complement and realignment of certain positions that should provide the Office with the requisite staffing resources to fulfill adequately its mandated audit responsibilities.

DENIALS OF OPINION

Under the provisions of Section 7(b) and (d) of the Auditor General Act, I have the responsibility to ascertain whether in my opinion:

— all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

In carrying out this responsibility, it is necessary to review and evaluate the financial and accounting controls in the departments of government. Should it be determined that certain controls are inadequate, these inadequacies must be considered in rendering an opinion.

The following paragraphs describe those instances where it was not possible to express an opinion that the existing records, controls and systems were adequate.

Department of Attorney General

There were nine instances where it was not possible to render an unqualified opinion on the audits of public officials. Three instances were due to inadequate accounting procedures which have since been corrected by the Department.

The other six instances were due to an inadequate segregation of duties caused by a limited number of accounting staff in the smaller offices.

Victoria General Hospital

In the 1983 Auditor General's Annual Report we noted that it was necessary to qualify the audit report of this Hospital due to the absence of proper controls over laboratory revenue.

Although certain controls have since been implemented, other controls remain deficient. Accordingly, it was necessary to qualify the audit opinion for the Hospital for the March 31, 1984 year.

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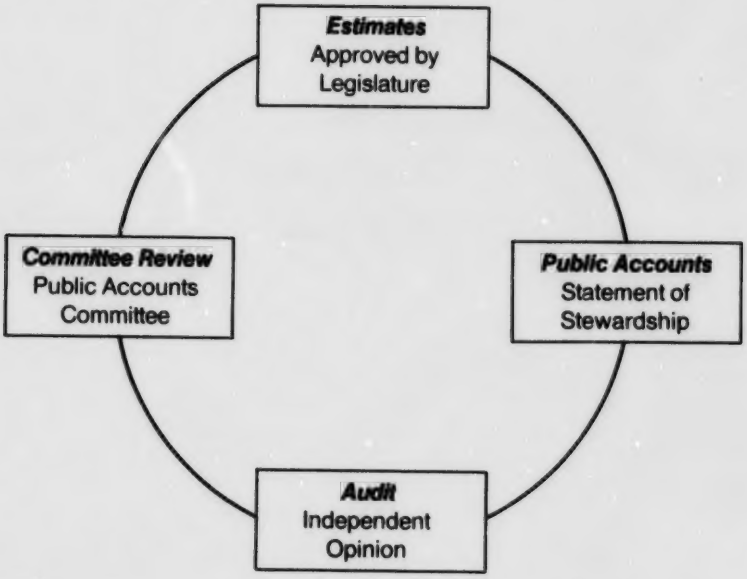
THE ACCOUNTABILITY PROCESS

LEGISLATIVE ACCOUNTABILITY CYCLE



Accountability Process

Introduction

The foregoing illustration highlights the legislative accountability cycle, a process which comprises four distinct steps or elements, each of which is defined below, and then described at further length.

The Auditor General's Annual Report, although an integral part of this control process, is in reality only one facet. It should not be viewed as completing the so-called accountability cycle, nor as being independent of the other three steps or elements.

Step 1 — **Estimates** the intended spending, revenue-raising, and borrowing activities of the government, which are presented to the Legislature for discussion and approval.

Step 2 — **Public Accounts** the annual statement of financial stewardship, showing the results of the year's operations and the financial position at year-end.

Step 3 — **Audit** a professional opinion by the legislative auditor on the financial position, operating results, controls and systems, compliance with authority, and other relevant matters.

Step 4 — **Committee Review** a committee of the Legislature, conducting a detailed review of the public accounts to ensure that the administration is held fully accountable for its financial management.

ESTIMATES

The Government presents its financial plan for the fiscal year by way of the Estimates. In this the first step of the accountability process, Government informs the Legislature of its programs for spending, borrowing, and raising money. The members of the House participate in extensive debate relating to matters included in these Estimates. Finally, they are voted on and the approved Estimates will be found as Chapter 1 of the Annual Statutes.

The format of, and information included in the Estimates have undergone significant improvement since the adoption of the "Management Planning and Budgeting System" in 1979. This system was designed to facilitate the decision process for allocating resources, and improve the ability to regularly monitor and control revenues and expenditures on a timely basis.

Our 1982 Report included a review of the budgeting process within government. The Government was commended for the introduction of this system, the meeting of the objectives for it, and the provision of a more informative and useful document on its annual spending plans. In addition, there were two important matters discussed in that article relating to budgetary control.

First, performance or results indicators, to measure the effectiveness of departmental and program expenditures, should be used as extensively as possible. It is recognized that in all cases, precise quantitative measurements cannot be derived. However, there have been significant developments in this area, and many governments, including Nova Scotia, have introduced results indicator control procedures. Our office strongly supports continuing efforts to fully implement this process in Nova Scotia.

Secondly, there was a word of caution expressed that the integrity of the budgeting system be maintained. The tendency to make budget cuts of a fixed percentage — across the board type, where systematic and realistic analysis of funding levels, service needs, and essential priorities have not been made, must be avoided.

The estimate process in Nova Scotia appears reasonably adequate. However, the real test of the usefullness of this first step in the accountability process rests with the members of the Legislature. They must be satisfied that they are obtaining complete and reasonable explanations for the revenue raising programs, and the planned expenditures described in the Estimates.

THE PUBLIC ACCOUNTS

The Auditor General is not charged with the mandate for expressing the Auditor's Opinion on the financial statements of the Province. However, this has not prevented the Auditor General from stating his views on the accounting policies used, and disclosure practices followed, by the Government in its annual statement of financial stewardship — The Public Accounts.

In his Annual Reports from 1978 to 1982, and in particular 1980 and 1982, my predecessor had strong criticisms to make, and improved practices to recommend.

Substantial improvements were finally implemented in the 1983 financial statements and these were acknowledged in last year's Annual Report. These improvements included:

— the elimination from the Statement of Financial Position of a variety of surplus and reserve accounts which were both unnecessary and confusing;

— a significant improvement in the clarity and completeness of the explanatory notes accompanying the financial statements;

— the adoption of an accounting policy for the charging of capital expenditures that is now consistently followed;

— an accounting policy for the recording of long-term debt of the Province due in foreign currencies, that equates such debt to the current value of the Canadian dollar; and

— the presentation of a Statement of Consolidated Fund Transactions and simplifications in the Statement of Revenues and Expenditures, both of which lead to a better understanding of the year's operating results.

All of the above have contributed to a vastly improved presentation of the year's financial results; a presentation that is not only more contemporary, but reasonably comparable to that found in other provinces. This was not the case prior to 1983.

There are, however, two matters relating to the Province's annual financial statements which deserve comment.

1) *Use of Forecast Data*
The Government over the past two years has included forecast data in the Statement of Revenues and Expenses. This is in addition to the previous year's actual, and both the estimates and actual for the current year.

For several reasons, I consider the forecast data unnecessary. First, the most relevant data is the actual, presented in comparison to the approved Estimates. This conveys the year's actual results in relation to what the Legislature has approved. In addition, the previous year's actual data should also be presented for comparison purposes.

Second, not only is the forecast data derived from the departments on the basis of a variety of assumptions, but its basis of accumulation, and those assumptions are not stated in the accompanying notes to the financial statements. Also, the purpose for including the forecast data is not indicated.

In addition, no other Provincial jurisdiction in Canada follows this practice, nor is there any precedent for it in accounting literature or pronouncements. Moreover, forecast data is used by management for financial control, and is inappropriate in the annual financial statements.

2) *Guarantees, Investments and Loans*
In the course of its support to various borrowers in industry, commerce and related activities, the Government through its various loan funds makes equity investments, and also provides loans and loan guarantees. The magnitude and risk of many of these loans and guarantees continue to increase.

Attention is again drawn to this area, as was done in 1983, because current accounting and disclosure practices of the Province make no allowance in the financial statements for possible losses on loan guarantees. During the past year, discussions were held relating to guarantees, between our office and representatives of the Departments of Finance and Development, and the Government's external auditors. Revised valuation procedures are planned for the March 31, 1985 fiscal year for guarantees.

It is reasonable to expect that the Province's financial statements in future will have to reflect, by means of a greater allowance for doubtful accounts, the increasing risk not only in loan guarantees, but also in loans and investments.

AUDIT

Introduction

In order for a legislative audit office to fulfill its role in the Accountability Process, there are three principal requirements:

— a mandate sufficiently broad in scope;

— a degree of independence which permits that mandate to be carried out without interference; and

— an effective working relationship with the Legislature's Public Accounts Committee.

This section of the Annual Report, in dealing with the audit function, presents further elaboration on scope and independence considerations, and suggests revisions to the Auditor General Act relating to appointment, administration, scope, and reporting.

Scope

The scope of the audit function for a Legislative Audit Office should include four principal areas.

1) The audit of revenues and expenditures, and associated controls and systems, is mandated under Section 7 of the Auditor General Act. This is a common provision in all legislative audit jurisdictions in Canada.

2) The expression of an audit opinion on the financial statements of the Province should be the responsibility of the Auditor General in Nova Scotia. This matter is discussed further on page 37.

3) A broader scope of audit activity is in my judgement, and was in the opinion of my predecessor, provided for in the Auditor General Act. Over the past 10 years there has been a limited amount of broader scope audits done. These were performed in certain crown corporations such as Sydney Steel Corporation, Nova Scotia Power Corporation, Industrial Estates Limited, and the Nova Scotia Liquor Commission, as well as special studies on hospital construction, the budgeting process, and the Victoria General Hospital.

4) The right to conduct inspection audits of third parties is often granted to Legislative Auditors under their legislation. Considerable amounts of government funds are provided to third parties, in the form of grants and assistance, for specific uses by the recipients. These funds once given, are often not subject to audit, to assure the granting agency that the funds were used for the intended purposes. An appropriate degree of accountability dictates that the Legislature be independently assured by the Auditor General that the granting conditions have been fulfilled.

Independence

The responsibilities of an Auditor General can be discharged only if his independence is not hindered. This independence flows through areas such as the appointment, the provision of required manpower and financial resources, and the reporting structure. In this context, more control and direction from the Legislature, or a committee thereof, and less control or direction by government would serve to ensure the requisite independence of an Auditor General is maintained.

Although I feel changes are necessary, I want to emphasize that to date there have been no problems in dealing with Management Board, and the Civil Service Commission, in connection with budget and staffing matters. We have enjoyed a good working relationship, and the effectiveness of this Office has not been impaired.

Auditor General Act

This section presents specific considerations regarding proposed amendments to the Auditor General Act. These, in my view, would provide the requisite degree of scope and independence essential to the proper functioning of this Office. I intend to formally present detailed recommendations reflecting these amendments to the Speaker, for consideration during the 1986 sitting of the House.

The current Auditor General Act was passed by the Legislature in 1973, and became effective on April 24, 1973. In many respects, this Act was the forerunner of similar legislation elsewhere in Canada, particularly with respect to the right to conduct examinations in agencies of government audited by other than the Auditor General.

As is true of most legislation, experience over time in its application has served to point out desirable improvements. This, coupled with other significant developments since 1973, has indicated the need for revisions to our own legislation. Certain of these developments are:

— the Report of the Independent Review Committee, commissioned by the Federal Auditor General, published in 1975;

— "Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors," a major research study of the Canadian Comprehensive Auditing Foundation, published in 1981; and

— new legislative audit acts in eight Canadian jurisdictions.

These and other related factors have combined to promote a greater awareness and understanding among legislators and taxpayers alike, of the role of a Legislative Auditor. This has served to create an expectation for a level of performance and reporting not previously envisaged, which by and large has been reflected in the audit acts in other jurisdictions.

The major proposed amendments to the Auditor General Act, which would reflect contemporary conditions and requirements, are presented under the following four headings:

- Appointment of the Auditor General
- Administration of the Office
- Scope of Audit Activity
- Reporting

Appointment of the Auditor General

Currently, the Auditor General is appointed by the Government. The appointment process in my opinion, should be one which ensures that the individual appointed is acceptable to both the Government and opposition members of the Legislature. A multi-party Committee of the Legislature is used successfully in some jurisdictions to achieve this result, and I would strongly urge this type of arrangement be implemented.

In Nova Scotia, the Auditor General is appointed until retirement. Across Canada, appointments range from life to not less than five years; some with renewal clauses and some non-renewable. There is not a clear consensus, but it would seem that a fixed-term, non-renewable appointment might better serve all interests.

As far as removal from office is concerned, all jurisdictions including Nova Scotia, have reasonable legislative provision.

The Auditor General Act currently provides for the temporary replacement of the Auditor General, during vacancy, illness, or absence. This provision should also include safeguards to prevent interim appointments for unduly extended periods of time.

Administration of the Office

The Auditor General Act includes provisions relating to such areas of administration as budget, staff resources, and the use of consultants. For the most part, the Act requires that standard government procedures be followed.

In order to ensure the independence of the Auditor General, it is desirable that the Office, in its normal ongoing transactions, not be placed in a position of subservience to a department which is subject to audit by the Auditor General.

However, there must be adequate provision to ensure a proper degree of accountability by the Auditor General. An appropriate type of review of the Office's activities and administration must take place. Since the Auditor General is responsible to the Legislature, it would be prudent to have a multi-party committee of the Legislature with the mandate to:

— ensure that the Auditor General complies with appropriate government policies, procedures, and standards, where applicable;

— review and recommend upon the Auditor General's annual estimates;

— initiate an independent review of the audit activities of the Office (similar to the professional practice reviews carried out in the private sector); and

— appoint annually an independent auditor to perform a financial audit of the Office's expenditures.

There are at least three provinces with committees of senior representatives of all recognized parties (other than the Public Accounts Committee), who have been assigned the task of overseeing the Office of the Auditor General, along the lines indicated above.

Scope of Audit Activity

In order to have the responsibilities of the Auditor General appropriate to his role in the accountability process, and also to be consistent with the duties of other Legislative Auditors in Canada, there are three matters relating to scope which warrant change.

(1) Financial Statements of Government

Nova Scotia is the only Provincial Government in Canada which still engages a public accounting firm to attest to its financial statements. This, in my view, represents an unwarranted duplication of audit effort, is unnecessary, and not justifiable on a cost basis.

This unique situation has three distinct aspects worthy of note:

a) The audit appointment is made annually by Order in Council, and the Auditors' Report is addressed to the Minister of Finance. In the private sector, the appointment is made by, and the report is to the shareholders. In the case of governments, the auditor should be responsible to the full body of elected representatives. In Nova Scotia this would be the members of the House of Assembly.

b) Many of the areas required to be examined by the external auditors are also required to be examined by me under Section 7 of the Auditor General Act. This represents a significant duplication of audit effort. It contributes to unnecessary costs in terms of audit fees, and to duplication of staff work in the areas audited.

c) There is a compelling need to appear, as well as be, objective. The Office of a legislative auditor is established by the Legislature, and is looked upon as being fully independent of government. An Auditor General's duties are bestowed by statute, and he reports directly to the House of Assembly.

The accountability process of government, long entrenched in the British Parliamentary system, has the responsibility for audit of the financial statements resting with the Legislative Auditor. It will be my recommendation to the Legislature that the Auditor General be provided the mandate for the audit opinion on the financial statements of this Province, and that this responsibility be included in the Auditor General Act.

(2) Broader Scope Audits

An understanding of what is meant by broader scope audits is best obtained from the following definition of a type of broad scope audit — the comprehensive audit.

"A comprehensive audit is an examination that provides an objective and constructive assessment of the extent to which:

— *financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and*

— *accountability relationships are reasonably served.*

"The comprehensive audit examines both financial and management controls, including information systems and reporting practices, and recommends improvement where appropriate."

It is directed to a determination as to whether funds expended have provided value-for-money.

It is my belief, as it was of my predecessor and so expressed in several of his Annual Reports, that the present Auditor General Act does permit broader scope audit examinations.

Since 1973, when the Auditor General Act was proclaimed, this Office has in fact performed several audit reviews in crown corporations, and special examinations in government departments. These were of a nature broader in scope than required by Section 7 of the Act, and each audit has been discussed in an Annual Report of the Auditor General.

This mandate flows from Sections 8 and 16 of the Act. However, it could be said that this responsibility is more implied than formally enunciated.

Accordingly, I would strongly urge that appropriate amendments be enacted to clearly legislate this responsibility, in a manner similar to that found in the acts of six other Legislative Auditors in Canada.

(3) Inspection Audits

In view of the substantial amount of grants and assistance provided by government, and the need for proper accountability of taxpayer dollars — there must be a mechanism to verify, on behalf of the Legislature, that tax dollars are spent for the purposes given, and that payment conditions are met.

Although some grant programs provide for an audit of the recipient, or at least an examination of financial statements, others provide no means of holding the recipient accountable. Accordingly, Nova Scotia should provide its Auditor General with the authority to conduct what are termed inspection audits, of the records of grant recipients. This authority, although not used extensively, may be found in the audit statutes of some other Provinces.

Audit Reporting

There are two major revisions to the Act in the area of reporting which should be considered. One relates to the release date of the Annual Report, and the other to special reports.

I support the adoption of a recommendation of the Canadian Comprehensive Auditing Foundation Study, which states:

> *"Auditors annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature."*

In this way, a more timely consideration of matters raised by the Auditor General will result. This would require the Public Accounts Committee to be available for consideration of the Annual Report, and meeting with the Auditor General at times when the House may not be in session.

Secondly, the Legislative Auditor should have the statutory right to issue a special report to the Legislature on matters of urgency that should not be deferred until the Auditor's Annual Report.

PUBLIC ACCOUNTS COMMITTEE

The final element to complete the control cycle is an effective and meaningful review by a Committee of the Legislature. This is the role assumed by the Public Accounts Committee.

The Public Accounts Committee of a legislature may be compared to the audit committee found in most private and crown corporations and in charitable, educational, health service and other entities. Essentially, their duties are to review the audited financial statements, auditor's reports, and to make recommendations to the Board. They meet with the auditor to discuss audit findings, significant recommendations, and other matters of common interest.

During the 1970's substantive developments took place in the growth and responsibility of audit committees. They were the object of many studies, as well as a requirement in newer Companies' Acts. Audit committees expanded from a largely non-existent base in 1970 to the point where, a decade later, more than 80 per cent of companies responding to a recent survey had audit committees.

During this period of growth and increased involvement of audit committees, the Nova Scotia Public Accounts Committee was termed "largely ineffective" by Arnold Sarty, in his 1983 Annual Report. He further stated *"there is not an effective working relationship between the*

Auditor General and the Public Accounts Committee...because the Committee lacks a clearly defined statement of roles, is poorly organized and administered, and makes no effort to prepare meaningful reports on its findings and recommendations to the House of Assembly". In previous years' Annual Reports, a series of suggestions were enunciated, pertaining to the operation of the Committee which were felt essential to the effective functioning of this segment of the financial control process in government.

The findings and recommendations of the 1981 research project "Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors", funded by the Canadian Comprehensive Auditing Foundation (CCAF) supported his viewpoint. The recommendations of the CCAF study are reproduced in full as Appendix IV.

In my view, the following should be considered to improve the operation and structure of the Public Accounts Committee.

- The role and responsibility of the Public Accounts Committee should be formally enunciated.

- There should be provision that the Committee can meet other than when the House of Assembly is sitting, so as to provide time for meaningful discussion of matters brought before it.

- The Chairman of the Public Accounts Committee should be a member of the Opposition Party.

- Ministers of the Crown should not be appointed as members of the Public Accounts Committee.

- The work of the Committee should be better organized through the use of formal agendas, and the provision of required background material on items being discussed.

- Verbatim transcripts of meetings should be prepared and published promptly.

- Insofar as possible, the Public Accounts Committee should concentrate their attention on significant issues of management and financial administration, rather than on isolated, unimportant individual transactions.

- The Public Accounts Committee should prepare a substantive report annually.

- There must be an effective procedure for follow-up of the Committee's recommendations.

This discussion can best be summarized by the following quotation from the CCAF study:

> *"Just as Public Accounts Committees need auditors if they are to play their proper role in holding governments accountable, so do auditors need Public Accounts Committees to ensure that their findings and recommendations are given a public hearing, and that governments will make a public response to the shortcomings identified by the audit. Neither Public Accounts Committees nor auditors acting alone can ensure accountability. But a strong and effective Public Accounts Committee working closely with a creditable and competent auditor can help ensure that the legislative duty to hold the administration accountable for its management of public money and resources will, in fact, be discharged."*

The study outlined what were considered to be characteristics of a Model Public Accounts Committee and a Model Auditor. These are presented as Appendices V and VI. They stress that every characteristic listed could be found in at least one Canadian jurisdiction. Therefore, the ideal could be achieved by adopting practices that have already proven their worth in other parts of the country.

* * * * * *

Any discussion of the role of a committee in its interface with the auditor, would not be complete without a reference to the role of audit committees. Each of the crown agencies or corporations of government, in which there are appointed Boards of Directors or equivalent, must have an effective audit committee. To operate without one is a serious dereliction of the Board's responsibilities, for without such a function being performed, a Board cannot fulfill all the requirements of its mandate.

Over recent years, our experience has been that some crown agencies and corporations have either not had a committee to fulfill this role, or the committees in place have operated on an unsystematic and largely ineffectual basis. An audit committee which has functioned well is the Halifax Infirmary's, and a brief comment on it is appropriate.

The Board of Directors of the Halifax Infirmary has had an audit committee since their incorporation in 1973. The Audit Committee has met regularly with our Office as auditors, and there has been a meaningful review and discussion of the annual audits and their results. We have seen appropriate action and follow-up taken on the basis of these meetings. In addition, it is worth noting that this Committee is fully independent of administration, and contains exclusively Directors who are not officers of the hospital.

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OTHER AUDIT OBSERVATIONS

Department of Agriculture and Marketing

Farm Loan Board

In the 1981 Annual Report of the Auditor General we described a loan made under the Agriculture and Rural Credit Act to Elmview Farms Limited. The loan of $167,520 was authorized by Order in Council, despite the rejection of the loan application by the Nova Scotia Farm Loan Board because of inadequate security and a negative cash flow. The loan raised the borrower's total indebtedness to the Farm Loan Board to $297,000.

The Regulations of the Agriculture and Rural Credit Act require an appraisal of all property and chattels which are to be used as security for a loan. These Regulations also limit the amount to be loaned to a maximum of 75% of the appraised value of property and equipment. The most recent appraisal of the properties of Elmview Farms Limited was in January 1979, at which time a value of $257,000 was established. In addition to the property owned by Elmview Farms Limited, a 100 acre farm owned by a third party was conveyed to the Farm Loan Board as security for this loan, but the property had not been appraised. This would set a loan limit of $193,000, plus 75% of the value of the 100 acre farm conveyed as security.

During the 31 months that the loan was outstanding, the Board received two payments totalling $6,000. On June 10, 1983, the Farm Loan Board sold the properties and equipment for $277,000. At the time of the sale, the amount owing to the Farm Loan Board including interest and termination costs was $395,000.

As a result of a loan made against the recommendation of the Farm Loan Board and contrary to the Regulations, the Province sustained a loss of $118,000.

Cash and Other Losses

As required by Section 8(1)(e) of the Auditor General Act, I report the following instances of "deficiencies or losses through fraud, default or mistake of any person."

Department of Attorney General

Four minor losses and two break-ins resulted in losses totalling $273 in cash and $584 in equipment.

Commission on Drug Dependency

The Commission sustained two cash losses which totalled $80.

Department of Education

The Nova Scotia Teachers' College sustained a loss of $17,514 from theft by an employee, who pleaded guilty in Provincial Court.

The presiding judge was critical of the College for its lack of accounting controls which might have deterred such theft, or detected it at an earlier date.

The Department of Education vocational school inventories sustained losses totalling $5,003, from five break-ins. There have been no recoveries nor charges laid.

Department of Health

This Department sustained a minor cash loss of $20.

Human Rights Commission

The Commission suffered a loss through theft of $31. No recovery has been made.

Department of Lands and Forests

A number of blank payroll cheques were stolen and forgeries made. The Department sustained no cash losses from this theft, as reimbursement was received from the banks for cheques cashed. The Department has implemented procedures to prevent a reoccurence.

Department of Municipal Affairs

Two thefts resulted in the loss of $47.

Speaker's Office

Equipment valued at $450 was stolen from this office. No recovery has been made.

Department of Transportation

This Department suffered 27 break-ins at various locations, resulting in losses of equipment valued at $6,450. In two cases, arrests were made and restitution of $1,169 received.

Victoria General Hospital

The hospital sustained losses through theft totalling $2,445, of which $2,384 was recovered from a bonding company.

* * * * * *

Accounting Control Weaknesses

The foregoing description of a loss at the Nova Scotia Teachers College, and in particular the critical comments of the presiding judge serve to emphasize the importance of accounting controls to minimize loss from fraud.

Section 7(d) of the Auditor General Act requires that my Office conduct examinations to ascertain whether procedures applied are sufficient to safeguard and control public property. As a result of these examinations, our annual reports have included descriptions of inadequate controls, primarily under three captions — Denials of Opinion, Cash and Other Losses, and Computer Related Audits.

In the 1982 Annual Report, accounting control weaknesses were dealt with at some length. Included in the article were:

— a review of the Auditor General's responsibility in this area, and a summary of prior years' comments on the topic;

— a brief description of three major and commonly encountered weaknesses, namely

1) inadequate segregation of duties;

2) lack of independent checks and reviews;

3) delays in, and lack of required reconciliations;

— a comment on improvements in the level of staff competence, and in control systems;

— a request to update what presently are 20 year old policies and procedures relating to the handling of irregularities; and

— finally, a brief description of the control weakness conditions found in six cases of actual fraud — four of which had been reported by our Office prior to the fraud.

The conclusion to this article pointed out the need for more attention and care by those in both management and accounting positions, to the matter of inadequate controls. It was suggested that *"pressures on the assets and systems of Government by those bent on fraudulent action is likely to become greater."*

I would like to reiterate the concerns of my predecessor. Our function is to identify and advise regarding control weaknesses. It is our expectation that timely remedial action be undertaken to correct them, and that it not be delayed until a fraudulent action has taken place.

Computer Related Audits

Results of Audit Reviews

In previous years, my Office has reported the results of computer environmental reviews. These reviews are carried out in departments and agencies where computerized systems are utilized for accounting and other financially related activities.

Environmental reviews consist of detailed audits which determine the adequacy of:

— system and program documentation, as well as user and operator instructions;

— development controls that ensure proper planning, authorizations, testing, and accurate conversion from manual systems;

— organizational controls to ensure that the segregation of functions and duties is appropriate;

— processing controls which ensure that data is processed completely and accurately; and

— precautions taken to ensure that data and equipment is physically safeguarded.

During the past year, we carried out reviews of 11 computer installations. Three of these had controls in place which appeared to be adequate and operating effectively. These were:

Department of Transportation — Miller Lake
Health Services Tax Commission
Registry of Motor Vehicles

Six of the 11 reviews revealed a variety of control weaknesses, some of which were common to several of the installations. These six were:

Department of Finance (DF)
Department of Health (DH)
Department of Transportation — Head Office (DTH)
Halifax Infirmary (HI)
Nova Scotia Hospital (NSH)
Nova Scotia Research Foundation (NSRF)

The specific control weaknesses that we identified may be summarized as follows:

- Incomplete documentation, and inadequate standards for the preparation and maintenance of documentation, (DF, DH, HI, NSH)

- Inadequate arrangements for offsite storage of back-up systems and data, (DH, NSH, NSRF)

- Inadequate segregation of duties among the users, the operations group, and development and maintenance personnel, (DF, DH, HI, DTH, NSH)

- Inadequate password systems to control access to data and programs, (DF, NSH, NSRF)

- Standards not established to control maintenance and/or modifications to systems and programs, (DF, DH, NSH)

- A formal steering committee or a systems development process not used to control the acquisition, development and use of EDP technology, (DF, NSH)

- The lack of a comprehensive security program to deal with risks or threats to the installation, (DF, DH, HI, NSH, NSRF).

There are three relatively significant consequences to these control weaknesses which must be understood, so that the need for timely corrective action is fully appreciated.

1) Unauthorized access to a system can easily permit undetected manipulation of data and/or programs. Every effort must be made to control access, and the ability to make changes in data and programs.

2) Without adequate documentation and standards, it is not unreasonable to anticipate serious user problems in operating and maintaining a system.

3) It is essential that there be an organized contingency plan to deal with all possible threats to a computer operation. Accordingly, a complete risk analysis must be undertaken, and appropriate security plans developed.

Two other environmental reviews were carried out during the year, and are discussed in more detail below.

Department of Fisheries

In January 1982, the Department of Fisheries began a three month project to computerize several aspects of its operations. Three years later, the largest of the proposed systems, the Fisheries Development Fund accounting, is not yet operational, nor expected to be for several months.

Our audit review, conducted in early 1984, revealed many environmental control weaknesses. These included inadequate documentation, improper segregation of duties, poor physical controls, inadequate back-up and recovery procedures, and the absence of a detailed security program.

However, the most serious of our findings dealt with the excessive delay in implementing the system. There are still numerous problems, and considerable effort will be required to make it fully functional. Despite the fact the system was not fully operational, payment of the original contracted price of $110,000 was authorized in March 1983.

Since our audit report of April 1984, the Systems and Computer Services Division of the Department of Government Services has reviewed the situation. In December 1984, they reported over 30 problems with the present system, and indicated it may take over 200 additional man-days to properly complete this project.

The excessive delays incurred, and the premature payment for an improperly functioning system emphasize two weaknesses in the management of computer resources, previously reported on by this office.

- There is a critical need for the development of definitive policies at a government wide level to control the aquisition and use of EDP technology.

- The end user of EDP technology must be better informed and aware of his role in the development of computerized systems.

Technical University of Nova Scotia

The other computer enviroment review was conducted at Technical University of Nova Scotia, for which we are the appointed auditors. This audit is not performed under the mandate of Section 7 of the Auditor General Act, so there is not a reporting requirement in the Annual Report.

We identified control and security weaknesses, which have been reported on and reviewed with senior officials of the University. It is our understanding that appropriate corrective action will be undertaken.

Conclusion

The overriding conclusion we must draw is that not enough attention has been paid to security and control measures in almost all of the installations we reviewed. In our opinion, this is due mainly to a lack of user appreciation of the need for security procedures and other controls.

Security over systems, programs, data and equipment must be given greater priority by the user, and by management throughout government. Hopefully, it will not take an emergency situation, or unauthorized access to equipment or data, before action is initiated to protect these data processing installations.

Computer Resource Management

Introduction

Both our office and computer consultants have reviewed the computer resource management process of the Province, and found this process deficient. In 1982, on the basis of a special audit of this area, we recommended more attention be paid to the overall planning, control, and use of computer resources in government, through the establishment of a strong central control mechanism, and a senior level planning committee. In addition, we suggested an operations group be made responsible for the control and execution of these plans, and that the end users of computer technology be informed of their role in the planning for, and management of, their computer resources.

In last year's Annual Report, it was noted that several positive steps had been taken. These included the establishment of a senior level planning committee to control acquisition of computer technology, and to approve project proposals. In addition, Management Board approved the development of a policy for the acquisition, use, and development of data processing and office automation within government. There was also a capacity planning study done on the government's central data processing facility.

Independent Studies

Since our last report there have been two reports released from consultants, who performed independent studies.

In late 1982, Touche Ross & Co. conducted a review of the EDP Policy Direction within the government of Nova Scotia, at the request of the Minister of Finance. The objectives of the review were to identify computer related issues which could lead to duplication or waste of EDP resources, and to recommend an action plan to resolve any potential adverse impact.

Although this review was conducted in the fall of 1982, and discussed with government officials in January 1983, their report was not released until February 1984.

There were many substantive findings in this report, including:

— a lack of government wide policies and standards to assist departments with EDP decision-making;

— an absence of coordinated long range plans for EDP;

— the full cost of EDP is not being allocated;

— incompatible computer equipment and communications technology is causing duplication;

— the EDP roles and accountability are unclear between Management Board, the Departments of Government Services and Finance, and user departments; and

— there is a lack of central direction for EDP within the government.

The recommendations accompanying these findings included the establishment of an EDP advisory council, definition of the roles of the decision makers, and a more active part in coordination of EDP planning and control by Management Board. It was further recommended that the use of incompatible equipment be limited, and that the Department of Government Services be the primary EDP agency, with the responsibilities for systems development and processing.

In October and November 1983, a study was undertaken by Evans Research Corporation to address the concerns expressed in the Annual Report of the Auditor General for 1982. The Evans report issued in February 1984 includes the following recommendations.

- Management Board and the Department of Government Services should prepare a Government Systems Overview to provide a context for the evaluation of systems in government.

- Departments should annually prepare Long Range Systems Plans for information technology and systems. These plans would indicate compatibility of systems within government and the department, communications and networking possibilities, and descriptions of major applications.

- The role of the user of computer services should be strengthened.

- An Information Technology and Systems Support Group should be established within the Systems and Computer Services Division of the Department of Government Services.

Observations

This office first indicated the need for a coordinated approach to computer resources management in our 1982 Annual Report. Our concerns were reiterated in our 1983 Report, where we acknowledged that these concerns were receiving the attention of management in government. Since then, the two independent reports stated similar conclusions and recommendations.

In March 1984, the recommendations of Evans Research Corporation were adopted, as the framework for developing long range plans and strategies for data processing within the government. Since then, the preparation of the Government Systems Overview has begun, and many departments have commenced their long range systems and applications plans.

I am pleased to note the positive reaction to the need for an EDP policy, and the implementation of an appropriate course of action. However, I draw attention to the time lapse between the original identification of these problems, and the remedial action taken.

Department of Development
Resources Development Board

Venture Corporations Board

The Venture Corporations Act empowers the Venture Corporations Board to make unsecured loans to venture capital corporations. The venture capital corporations provide an amount equal to the Provincial assistance, and make unsecured loans to third parties that are eligible under the Act. The purpose of this Act is to encourage investment in companies that have difficulty qualifying for conventional loans.

Since it began, the program has grown steadily each year. At March 31, 1984, loans totalling $3,665,990 had been made to venture corporations. The terms of these loans provide for no repayments in the first 10 years unless there are distributions to the venture corporation shareholders. Repayments, with interest, are to begin after the 10 year period based upon the profitability of the venture corporations.

Sections 15 and 16 of the Venture Corporations Act require the venture corporations to file an annual return and audited financial statements within four months of their fiscal year end. In October 1983, seven of the 16 venture corporations registered with the Board had not filed the required annual return or financial statements. A follow-up examination a year later showed that only half of the venture corporations were submitting the required information.

In mid 1984, in recognition of the difficulties being encountered in the monitoring of these loans, the Department of Development staff implemented revised operating procedures to achieve a closer liaison with, and information flow from, the venture capital corporations.

In my opinion, it is important that the Venture Corporations Board obtain current information on a regular basis, to ensure that the provisions of the Act are adhered to, and that loans are being applied to the purposes agreed upon.

Expenses of Members of the House of Assembly, Members of the Executive Council, Deputy Ministers and Ministerial Assistants

Introduction

In the March 31, 1983 Report of the Auditor General, there was a brief article noting that a review of the expenses of the members of the House of Assembly, Members of the Executive Council, Deputy Ministers, and ministerial assistants had been carried out. This article concluded "*... there were serious inadequacies in the House of Assembly Act, the Executive Council Act, and the accompanying regulations, relating to expense allowances for Members of the House and Executive Council. These inadequacies relating to voids, contradictions, overlaps, and other deficiencies have made it extremely difficult in many cases, to be certain of the intent of the legislation. The possibilities for misinterpretation and error also posed problems for the claimants, and those responsible for the approval of expense claims.*"

Two reports were issued on the basis of this audit — one to the Speaker of the House of Assembly, regarding expenses of members of the House, and one to the Chairman of the Management Board, concerning expenses of Ministers, Deputy Ministers, and ministerial assistants.

However, it was not appropriate at the time of the preparation of our 1983 Annual Report to provide any detail other than that which was reported, because of two conditions. First, one member's expenses were under review by the Attorney General. Second was the need for the Speaker to obtain explanations for certain other members' expenses, which was deferred pending resolution of the item in the hands of the Attorney General.

During the past few months, action has been taken by the Speaker, Management Board, and the Legislature Internal Economy Board on the various matters raised in our two reports. It is now possible to report in detail on:

— the objectives and conclusions of our review;

— the steps taken to remedy the various problem areas identified; and

— to express an opinion on the resolution of the matters raised in our audit reports.

Scope of Audit

Our office completed a review of the travel, accommodation, per diem, and constituency expenses of all members of the House of Assembly, for the period from January 1, 1982 to June 30, 1983.

The objective of this audit was to determine whether the expense claims of the members were prepared in accordance with the provisions of the House of Assembly Act, the Executive Council Act, and related Regulations. The audit report on this assignment was issued to the Speaker on November 29, 1983.

In addition, we reviewed travel and other expenses of the members of the Executive Council, Deputy Ministers, and ministerial assistants for the period from April 1, 1982 to March 31, 1983. The objective of this audit was to determine if these claims were reasonable, properly authorized, properly documented, and where applicable, in accordance with the established guidelines for expenses of public servants of the Province. The report on this assignment was issued to the Chairman of the Management Board on January 20, 1984.

In both audits, we examined expense claims of all persons in each of the groups mentioned. In certain cases, we examined all of the expense claims for a given individual, but in most cases we examined only a sample of the claims.

Principal Audit Findings

The overall findings and conclusions derived from both audits may be summarized as follows:

1) Numerous deficiencies were encountered with respect to the adequacy of supporting documentation and explanations for expenses claimed in all groups audited. As a result, it was often impossible to determine whether or not the expenses claimed were eligible for reimbursement. In addition, there were instances where non-allowable expenses were claimed and reimbursed.

2) Under Sections 40B(1), and 43(1)(ed) of the House of Assembly Act, members of the House are entitled to recover constituency expenses as determined by Legislature Internal Economy Board Regulation. The Regulation was inadequate in terms of describing the extent to which certain expenses were claimable.

3) Outside members are those whose normal place of residence is more than 25 miles distant from the House of Assembly. Under the Executive Council Act, Section 5(A) and the House of Assembly Act, Section 40(2), outside members are entitled to reimbursement for reasonable travel, accommodation, and other expenses incurred.

   However, the Regulations under these two Acts did not clearly define the allowable expenses as being only those out-of-pocket expenses actually made, nor did the Regulations indicate the extent to which some expenses could be claimed for trips made when the House was not in session.

4) The responsibility for the checking and approval of members' expense claims rests with the Office of the Speaker. During most of the period subject to our audit review, the Speaker's Office did not have sufficient staff resources to review adequately these expense claims. This deficiency was remedied, and at the conclusion of our audit, more appropriate staffing arrangements were in place.

   Accordingly, it was our conclusion that the Speaker's Office had not fulfilled its responsibilities in terms of requiring proper documentation and explanation, and reviewing expense claims for compliance with existing Regulations.

Significant Dates and Events

To provide a better perspective on this audit, the subsequent review process, and the resolution of matters raised in our reports, the following tabulation of significant events is presented.

The audit was performed by our office during the months of May to September 1983, and as previously noted, covered the period January 1, 1982 to June 30, 1983 for members of the House of Assembly; and from April 1, 1982 to March 31, 1983 for members of Executive Council, Deputy Ministers, and ministerial assistants.

During our review of the expense claims of one member of the House of Assembly, documentation was found which, in the opinion of the then Auditor General, was questionable as to its authenticity and appropriateness. It was decided to contact the RCMP, and consult with them regarding this documentation, with a view to determining whether the matter should be referred to the Attorney General. Two meetings were held between representatives of this office and the Commercial Crime Division of the RCMP in late October 1983.

It should be noted that the expense documentation of only one member was referred to the RCMP by our office for their advice.

On November 22, 1983, there was a meeting attended by the former Auditor General and myself, the Deputy Attorney General and a Director from his staff, and two representatives of the RCMP. The matter of certain expense claims of one member was discussed, and it was decided that the Attorney General's Department would take this matter under advisement.

On November 29, 1983, our report was issued to the Speaker of the House of Assembly on the audit of the travel, accommodation, per diem, and constituency expenses of the members of the House of Assembly.

In this report, we outlined matters relating to six members of the House. There were items requiring further explanation or justification, not readily discernible from the expense claims and documentation submitted, involving:

— improper documentation attached to the expense claims;

— inadequate clarification in the Regulation of the Legislature Internal Economy Board, or the directives and guidelines from the Speaker's Office relating to the reimbursement of certain expenses; and

— apparent overpayments, certain of which were inadvertent clerical errors.

The Speaker's Office undertook to contact each of these members, and obtain explanation or recovery of the expense payment, as deemed appropriate. However, it was decided that this action by the Speaker would be deferred, until the matter in the hands of the Attorney General was resolved.

On January 20, 1984, our report on the expense claims of Ministers, Deputy Ministers, and ministerial assistants was issued to the Chairman of the Management Board. In this report, it was noted that there were some instances of inadequate documentation and explanation, and apparent deviation from the expense guidelines used for public servants. It was recommended that revised guidelines be prepared to specify what are allowable expenses, and to prescribe documentation and explanation requirements.

In February 1984, I met with the Legislature Internal Economy Board. The Board advised that steps would be taken to proceed with the development of appropriate Regulations and guidelines to address the various problems with respect to ambiguity and incompleteness in existing Regulations and guidelines.

On April 18, 1984, the Attorney General in a letter to the Chairman of the Legislature Internal Economy Board (who is also the Speaker of the House of Assembly), presented his Department's reply to our request of November 1983 regarding certain expense claims of one member. This letter was made public by the Attorney General at a press conference on November 1, 1984.

On August 1, 1984, a Bulletin providing an overall policy statement, definitions, and guidelines relating to the claiming and documentation of Ministers' expenses, was issued by Management Board.

On October 28, 1984, the Speaker requested that I conduct a further review of the expense claims of Malcolm A. MacKay.

On November 1, 1984, a revised statement of travel policy was issued in Management Manual 510 — Personnel Management. This statement provides a comprehensive coverage of travel policies, and payment allowances for all public servants.

On December 17, 1984, the Legislature Internal Economy Board approved a Regulation effective January 1, 1985, relating to expenses of members of the House. In addition, the Board approved a set of policy guidelines on members' indemnities, allowances, expenses and reimbursement, to supplement this Regulation.

On January 11, 1985, I reported to the Speaker on the findings of our expanded review of the expense claims of Malcolm A. MacKay.

During the months of November 1984 to February 1985, the Speaker met with the six members noted in our report, and I met with three of them as well. The purpose of these meetings was to receive their explanations regarding various expense claims submitted.

Concluding Remarks

In the following paragraphs of this article, I present my opinions regarding the disposition of the principal matters raised in our audit reports to the Speaker of the House and to the Chairman of Management Board.

(1) *Regulations and Guidelines*

The Management Manual Bulletins referred to above for Ministers, Deputy Ministers and ministerial assistants, and the Regulation and guidelines of the Legislature Internal Economy Board for 1985 for members of the House of Assembly have been reviewed in detail by our office.

In my opinion, these now provide adequate definitions and descriptions of expense entitlements, and the required process for claiming and reimbursement. In addition, they deal satisfactorily with our audit conclusions and recommendations, relating to ambiguities and incompleteness.

The Legislature Internal Economy Board Regulation and related "Policy Guidelines On Members' Indemnities, Allowances, Expenses And Reimbursement", have been published by the Speaker's Office. In briefing sessions held in January 1985, these were explained to the members.

Members, Ministers, Deputy Ministers and ministerial assistants entitled to be reimbursed under these regulations and guidelines, should make every effort to ensure they understand and comply with them.

(2) *Administration of the Expense Approval Process*

Moreover, those responsible for administering the approval and disbursement process must ensure there is compliance with the eligibility, documentation, and explanation requirements of the Regulation and guidelines.

It must be recognized that there are two complementary segments involved — adequate Regulation and guidelines, and competent administration. Both of these must be in place to ensure the proper management of this activity.

In my opinion, the revised Regulation and Guidelines, as well as the improved procedures in the Speaker's Office, should provide for the adequate administration of this function.

(3) *One Member's Expense Claims*

The matter of certain expense claims of the Honourable William J. MacLean was referred to the Attorney General, because in the opinion of the Auditor General, the documentation was questionable as to its authenticity and appropriateness. These expenses totalled $6,952. The April 18, 1984 letter from the Attorney General to the Chairman of the Legislature Internal Economy Board, indicated that there was no basis for further action by his Department on this matter.

It should be clearly understood that it is not within the responsibility, or the competency of my office to make judgements with respect to legal matters which have been referred to the Attorney General for his opinion or action.

However, as Auditor General, it is my opinion that the documentation employed, and the explanations provided by the member for certain expense claims are inappropriate for the expenses claimed, and unacceptable from an audit standpoint.

(4) *Expense Claims of Five members*

Results of subsequent explanations received for the expense claims of four other members, and additional claims of the member discussed in section 3 above, are as follows.

There were items for which reasonable explanations were provided by the members concerned, certain of which involved prior approvals by the Office of the Speaker. In these cases, I was satisfied with the explanations received, and agreed that the members were entitled to reimbursement.

There was a second group of items comprising overpayments, principally due to inadvertence, clerical error, or misinterpretation of entitlements. In the case of all five members, there were items to be repaid, which total $9,790. Satisfactory repayment arrangements have been made in all cases.

(5) *Review of Expense Claims of Malcolm A. MacKay*

Our audit report of November 29, 1983 included comments on the review of the above member's expense claims for the period January 1, 1982 to August 31, 1983. We questioned the appropriateness of certain expense payments, because in our opinion, according to the House of Assembly Act, he did not qualify as an outside member.

On the basis of a letter to me from the Speaker of the House of Assembly, dated October 28, 1984, we expanded our review of Mr. MacKay's expense claims, to encompass the period January 1, 1981 to September 30, 1984.

We again verified that he was not resident more than 25 miles distant from the place where the House sits.Thus, he did not qualify as an "outside member", in accordance with Section 1 (l)(bb) of the House of Assembly Act. Accordingly, he was not entitled to "Travelling and Accommodation Expenses", under Section 40 (2) of the Act.

The member commenced claiming expenses as an outside member on February 19, 1981. From then to September 30, 1984, travel and accommodation expenses as an outside member were claimed by, and paid to, him in the amount of $34,454.

On January 11, 1985, I reported to the Speaker on the findings of this audit review. It is my opinion that Mr. MacKay did not qualify for outside member status, and should not have been provided expense allowances as one.

It was the view of the Speaker and the Legislature Internal Economy Board that responsibility for this situation was not entirely the member's. There was a lengthy period of time during which his claims as an outside member were accepted and paid. As well, the member had a strongly held view that he was entitled to outside member status, because a large portion of his constituency was over 25 miles distant from the House.

Accordingly, the Speaker has requested repayment for only that portion of his expenses paid during 1984 when he used an improper residence address, which amounts to $7,024.

(6) *Information*

It is essential that Regulations, guidelines, and Management Manual Bulletins relating to travel expenses be made public in their entirety, and steps be continued to explain the definitions, conditions, and entitlements contained therein. Moreover, the administrative processes relating to expense payments and reimbursement procedures should be clearly explained to all concerned on a regular basis.

The Speaker has initiated this year, the practice of meeting with all members of the House to review the Regulations and guidelines with them. It is my understanding this practice will be maintained.

(7) *Disclosure of Expenses*

In keeping with the need for proper accountability, and adequate disclosure of government expenditures, and also to permit comparability with disclosure of other government salary and expense payments, I recommend the following.

Details of all payments to members should be reported each year in the Supplement to the Public Accounts. For each member there should be disclosure of:

— annual indemnity payments;

— committee fees;

— other stipends received;

— travel expenses for constituency and House related matters;

— travel expenses for committee work; and

— constituency office and other related expenses paid for the member.

* * * * * *

In summation, I am pleased to report that the initiatives taken with respect to new Regulations and guidelines, an improved review and approval process in the Speaker's Office, and the dissemination of information to members of the House do adequately deal with the administrative and procedural matters raised in our audit reports. In addition, the specific items concerning certain members' expense claims have been finalized. The recommendation made, in the immediately preceding section, regarding a greater degree of disclosure of expenses warrants serious consideration.

It is indeed unfortunate that the recommendations made by the Auditor General in his 1978 Annual Report relating to members' expenses were not acted upon. Had they been, the situation experienced in 1983 and 1984 might have been avoided.

Grants and Assistance

During our audits of three departments, we found a lack of adequate control over several grant and assistance programs. Proper control features should include the evaluation of requests to ensure they meet the criteria of the program, and a subsequent review to determine that the monies were used for the approved purposes.

The weaknesses we encountered in the three departments are described in the following paragraphs.

Department of Environment

Policies and guidelines do not exist over the disbursement of Environmental Improvement Project grants. Grants are made on an ad hoc basis, and thus proper evaluation and review criteria are not always applied.

We became aware of one grant for $100,000 to finance an incinerator project. Shortly after the grant was given, the project was terminated by the local government. The Department had no stipulations or covenants concerning the requirement to complete the project, so the grant recipient was completely within its rights to cancel the project, and the Department had no recourse.

This might have been prevented if appropriate policies and guidelines were in place for disbursement of these grants.

Department of Development

We found one grant for $20,000 under the Assistance to Industrial Commissions program was not properly evaluated against existing program policies and guidelines, and there was no documentation to support the grant request.

Department of Education

The Department of Education and the Department of National Defence jointly fund the operation of Shannon Park School, which is owned by the City of Dartmouth. The provincial funds come from Education Grants. There is no agreement between these two parties and the District School Board for the City of Dartmouth, concerning the rights and responsibilities of each party for costs, operations, control, and related matters.

* * * * * *

These cases of inadequate control over grants and assistance are noted to emphasize the need for proper policies and guidelines over every program that involves the disbursement of funds to grant recipients.

Other Audit Assignments

Department of Health

Review of Final Settlement Process

The Department of Health funds all hospitals in the province on the basis of approved annual budgets. Following the end of each fiscal year, accounting counsellors from the Finance Division of the Department carry out a final settlement audit of each hospital's expenditures to determine that they were in accordance with the hospital's approved budget.

At the request of the Deputy Minister of Health, we undertook a review of the procedures carried out by the Department's Finance Division on annual final settlements.

The objective of our review was to determine if the final settlement audit process was an efficient and effective one.

We ascertained that improvements could be made in the administration and conduct of the final settlement audit process. We helped

develop specific procedures and techniques which should provide a better approach to this task, and also:

— result in a more timely finalization of the annual final settlements with the hospitals;

— permit a more efficient use of the Department's audit resources; and

— enable accounting counsellors to conduct more meaningful work in the areas of budgeting, cost analysis, and related hospital accounting and financial work.

Department of Mines and Energy

Agreement On Oil Substitution and Conservation

On March 31, 1977, the Government of Canada and the Province of Nova Scotia entered into an agreement known as *Canada — Nova Scotia Agreement on Oil Substitution and Conservation.* The purpose of this agreement was the establishment of program for the reduction of Nova Scotia's dependence on imported oil for fuel in the generation of electrical energy.

The program to accomplish this purpose was composed of the following objectives:

— to decrease the dependence on oil by increased use of coal as a fuel for generation of electrical energy;

— to decrease the dependence on oil by the increased use of renewable resources;

— to improve efficiency in existing energy generation and distribution systems in order to conserve energy usage and reduce energy losses;

— to upgrade transmission systems to facilitate the availability of electrical energy generated outside the Province; and

— to undertake other research and demonstration projects, designed to reduce consumption of oil or conserve energy usage.

The program is under the direction of a Management Committee, composed of representatives of the Government of Canada, and the Province of Nova Scotia.

At the request of the Management Committee, we performed an audit of the Special Fund which was set up for financing the provisions of the agreement, and we also reviewed program expenditures for compliance with the criteria and conditions set forth in the agreement.

The Fund was established by a contribution of $9,200,000 from the Government of Canada, and there has been interest earned of $7,616,059, for a total available of $16,816,059. To March 31, 1984, payments from the Fund have totalled $8,137,120. The balance on hand at March 31, 1984 was $8,678,939.

As a result of this audit, I was able to express the unqualified opinion that the Special Fund has been managed for the purpose of, and in accordance with the provisions of the agreement; and expenditures and projects undertaken were within the terms of the agreement.

Nova Scotia Liquor Commission

Although a chartered accountant other than the Auditor General may be the appointed auditor of an agency of government, I am authorized under Section 16(2) of the Auditor General Act, to conduct such additional examination and investigation of the records and operations of the agency as I deem necessary.

The only such examination conducted during the past year was at the Nova Scotia Liquor Commission. Selected functional areas — Advisory Services, Finance, Internal Audit, Property and Development, Stock Administration, and Store Administration — were reviewed. The objectives were to assess each from a managerial standpoint, and to determine both the appropriateness of the responsibilities assigned to the function, and how well, in our view, these were being performed.

Our overall conclusion was that the functional areas examined were very well managed. We were impressed with the calibre of those in charge of these functions, and the manner in which their responsibilities were fulfilled.

Two significant areas in which we made recommendations were inventory management and space utilization. These concerned the high investment in inventory, and the number of product lines carried; and the size of certain retail store outlets. In both cases, we suggested that additional analyses be undertaken in order to reassess the Commission's policies in these two areas. The objectives of these analyses would be to quantify possible cost reductions which might be implemented without seriously detracting from the level of service provided customers.

In addition, there were other recommendations and suggestions made regarding such matters as accounting and control systems, managerial information and reports, and possible modifications to certain functional management responsibilities. These were well received by management of the Commission, with many acted upon prior to the conclusion of the audit.

The Commission is currently experiencing the effects of a consumer buying trend towards less profitable products. The effect of this trend is likely to have a considerable impact on the Commission's annual net income, so every effort has to be made to control and reduce, where possible, operating costs.

* * * * * *

FINANCIAL POSITION AND OPERATING RESULTS

Additional Appropriations

For the 1983-84 fiscal year, 12 departments received Order in Council approval to spend an additional $62.8 million over what had been approved in the Estimates. The dollar total is the lowest since 1979-80, and the amount for current account expenditures, at $35.1 million, is significantly below prior years' approvals. There are, however, two matters which warrant comment.

A $6.8 million additional appropriation was approved for the Department of Education — Grants and Assistance, an item discussed in each of the past two Auditor General Annual Reports. Provision for funding formula increases was made by the Department in the original budget submission, but was eliminated in the final Estimates. The Estimates have clearly not been realistic for this subject area.

The additional appropriation of $27.7 million for capital expenditures is the second largest in the past six years, exceeded only in 1981. This is in spite of lower capital budgets being submitted to the House of Assembly for approval.

My conclusion is that the 1984 additional appropriations included amounts that should have been anticipated, and included in the original Estimates.

The following is a tabulation of additional amounts approved by Order in Council for the past six years.

Additional Appropriations ($ Million)

Year	Current	Capital	Total
1983-84	35.1	27.7	62.8
1982-83	84.2	5.9	90.1
1981-82	166.2	24.8	191.0
1980-81	72.5	31.2	103.7
1979-80	53.8	6.8	60.6
1978-79	86.1	10.2	96.3

In spite of comments in previous reports from this Office, delays between the spending of funds and authorization to spend, continue. In particular, the final additional appropriation for 1983-84 was not approved until 24 weeks after the year end.

The following is a list of additional appropriations approved after March 31, 1984:

Department	Approval Date	Amount
Agriculture and Marketing		
Agricultural Services	May 1, 1984	$ 310,000
Attorney General		
Superintendent of Insurance	June 12, 1984	2,200
Registry of Joint Stock Companies	June 12, 1984	16,000
Education		
Grants and Assistance	April 2, 1984	6,848,700
Finance and Budgeting	April 2, 1984	26,100
Assistance to Universities	June 26, 1984	2,983,300
Teachers' Pensions	July 24, 1984	107,000
Health		
Health Services and Insurance Commission	July 31, 1984	1,175,243
Public Service		
Industrial Estates Ltd.	April 2, 1984	330,900
Nova Scotia Housing Commission — Administration	April 24, 1984	118,600
Power Rate Assistance	July 17, 1984	170,404
Government House	July 17, 1984	10,341
Election Expenses	July 17, 1984	91,609
Port Development Authority	August 21, 1984	37,438
Nova Scotia Housing Commission — Subsidies	September 18, 1984	221,851
Social Services		
Public Assistance	July 17, 1984	3,427,958
Tourism		
Bluenose II	August 21, 1984	33,746
Marketing	August 21, 1984	167,165
Total		$16,078,555

I am required under Section 8(1) (f) of the Auditor General Act to call attention in my Annual Report to every case in which: *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized a payment of money."*

On January 17, 1984, two special warrants were issued, authorizing expenditures of $2,142,838 and $533,375 for Keltic Savings Corporation Limited, in trust. Both amounts were *"required for the public good for purposes of protection of the public, due to the financial circumstances of Service Investments Corporation Limited"*. The latter was in serious financial difficulty, and certain of its interests and responsibilities were being assumed by Keltic Savings Corporation Limited.

Financial Position and Operating Results

A brief commentary is presented on certain relationships and trends taken from an analysis of the financial position of the Province at March 31, 1984 and the results of its operations for the year.

I acknowledge that there are no generally accepted financial analysis techniques for government. However, there are several key measures that can be utilized, and these are described in the following paragraphs.

Perhaps the most commonly used indicator of financial position for a province is its net debt position. The Statement of Financial Position in the Public Accounts is structured to highlight this amount, which is the excess of liabilities over realizable assets.

At March 31, 1984, the Province's net debt had risen to $2.3 billion, an increase of $350 million during the year. There has been a dramatic increase in the net debt over the past decade. At March 31, 1974, the Province's net debt was $300 million. The $2 billion increase over this period is attributable to

Capital expenditures	$1.3 billion
Net excess of operating expenditures over operating revenues	1.0 billion
	2.3 billion
Less: sinking fund earnings	.3 billion
	$2.0 billion

The annual provisions for sinking fund installments and serial retirements of $354 million over the 10 year period are not reflected in the above tabulation. In government, like business, debt repayment is not part of profit and loss determination.

However, there should be sufficient surplus funds available from operations to provide for debt retirement requirements. Since the Province has incurred a net operating deficit over this period, funds to retire debt have had to be borrowed.

A further commentary on the significance of the net debt will be found in the next section, page 79.

A second measure of financial performance is the operating deficit or surplus for the year. This compares the total of a year's operating revenues from taxes, federal grants, and other sources, with the total expenditures for the operation of all government departments, grants and assistance programs, and the interest cost of servicing the Province's debt.

The amount of the annual operating deficit for the March 31, 1984 fiscal year was $239 million. The details of its composition may be found in the Public Accounts, Statement 3. This represented a significant decrease of $55 million, or 19%, from the 1983 operating deficit of $294 million.

In addition to the expenditures for annual operating expenses, there are capital expenditures for such purposes as highways; constructing, expanding and equipping government buildings and facilities; and grants for building and equipment items for hospitals and other institutions. These amounted to $204 million in 1984. They are not included in the calculation of this year's deficit, but they do add to the Province's net debt.

This is the seventh consecutive year for an operating deficit. The total amount of deficits over this seven year period is $1,063 million, or 46% of the net debt at March 31, 1984.

A third key measurement relates to selected revenue and expenditure amounts. It is useful to examine trends, and the magnitude of significant items comprising the year's operating results.

The following schedule summarizes the actual revenues from income and sales taxes, and federal sources which together comprise 86% of total revenues. The 1984 revenues are shown in comparison to last year's and also to 1979 (5 years ago) and to 1974 (10 years ago).

Significant Revenues Compared With Total Current Revenues
(in millions)

	1984	%	1983	%	1979	%	1974	%
Income Taxes	$ 500	21	$ 461	22	$ 270	19	$ 125	18
Sales Taxes	500	21	432	20	261	19	150	21
Federal Grants	1,023	44	954	45	857	62	438	61
Other	301	14	272	13				
	$2,324	100	$2,119	100	$1,388	100	$713	100

Similarly, there is scheduled the four principal expenditure areas — health care, education, social services, and debt servicing costs. These too are shown in comparison to prior years, and as a percentage of the year's total expenditures.

Significant Expenditures Compared With Total Current Expenditures
(in millions)

	1984	%	1983	%	1979	%	1974	%
Education	$ 707	28	$ 660	28	$ 368	26	$ 195	29
Health	690	27	622	26	346	24	171	25
Social Services	259	10	236	10	125	9	59	9
Debt Servicing	407	16	354	15	120	8	72	10
Other	495	19	516	21	460	33	185	26
	$2,558	100	$2,388	100	$1,419	100	$682	100

Any analysis of operating revenues and expenditures for the Legislature would not be complete without a comparison of the year's actual to the Estimates. This provides an indication of how well the Government was able to follow the fiscal plan it submitted to the Legislature for review and approval.

The results of this analysis for the 1984 fiscal year portrays a commendable performance by Government. The total revenue and recoveries for the year of $2,324 million were within $15 million or 6/10 of 1% of the $2,339 million included in the Estimates. Actual expenditures for 1984 of $2,559 million were $28 million, or 1.1% less than the approved Estimates of $2,587 million.

Provincial Debt and Deficit Operations

Discussion of a Province's debt position by a Legislative Auditor might be interpreted as infringement on policy, a matter that is beyond the responsibility of the Auditor. Granted the incurring of a deficit is based upon policy decisions relating to revenue and expenditure patterns. However, there is certain precedent for discussion of this matter. Both my predecessor and other Canadian Legislative Auditors have, in recent years, provided commentary relating to the debt position of their jurisdictions.

The merits of incurring deficits are not unanimously agreed upon,even by the so-called experts. I acknowledge that governments at all levels are striving assiduously to reduce the magnitude of deficits. However, the effects on government revenues of less than buoyant economic conditions, the need to maintain essential government services at increasing cost, and the requirements of economically depressed segments, will often combine to offset sincere efforts at reducing deficits and debt.

Nevertheless, there are several meaningful observations which should be made, and although none may be considered as a new revelation, each bears repetition.

First of all, the size of both the net debt at $2.3 billion, and the annual operating deficit of $239 million this past year, must remain paramount in the minds of government leaders, and the taxpayers. Consequently, demands for services and support from government must be carefully ranked, because it would seem that only the most essential can be met.

Secondly, and equally significant, is the compounding effect that a higher debt level is having on the amount of debt servicing costs and repayment requirements. These are now over $400 million which represents 17.5 % of our revenues, a jump from $120 million or 8.5 % just five years ago. Simply put, this condition results in a smaller portion of revenue available for other required and desired government services and support.

A third consideration to be recognized is that a large portion of the long term debt being incurred, is not to pay for long life assets. Rather, it has been necessary to finance current operating costs with long term debt. As noted on page 76, over 46 % of today's net debt has been required to fund the current operating deficits of the past seven years.

This leads to the fourth and perhaps most important ramification of current debt and deficit conditions. It is necessary to ensure that government resources are employed where most required and needed, and utilized in the most efficient and effective manner possible. Percentage cut backs or allocations are often resorted to in efforts to hold the line. These must not take the place of rigorous attempts to realistically evaluate whether existing or traditional spending patterns should be maintained.

There have been changes considered and in some cases implemented, in the three largest areas of expenditure demand — health, education and social services. More will likely have to be studied and introduced, which could restructure certain spending patterns in these three fields, which together comprise 65% of government expenditures.

An accompanying consideration of importance is the maximization of both the efficiency and effectiveness of services provided, programs delivered, and activities supported. This can only be accomplished by responsible efforts at pre-expenditure justification analysis, and the setting of appropriate objectives and goals for expenditures. As well, the utilization of controls including performance indicators, must be applied to measure the effectiveness of expenditures.

With regard to this latter point, it is a responsibility of my Office to review and assess the extent to which proper pre-expenditure justification analysis, payment controls, and performance indicators are in place and appropriately used. There have been several audit reviews devoted to this area, notably Sydney Steel Corporation (1974 and 1975), hospital construction program (1981), the budgeting process (1982), and the Nova Scotia Liquor Commission (1984).

In summary, the Province has a net debt situation and operating deficit position that must be understood for all its ramifications. Government and taxpayers alike, should recognize that because of this financial condition, all demands cannot be met, and many existing programs will have to be re-examined and possibly restructured. The pressures to administer and control all expenditures with the utmost regard for economy, efficiency and effectiveness have never been so critical.

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OFFICE
OF
THE AUDITOR GENERAL

Office of Auditor General

Introductory Comments

In introducing this section on the Office of the Auditor General, I would like to highlight certain of the significant developments which took place during the tenure of my predecessor, Arnold Sarty, who held office from August 1965 through October 1983.

The Office matured from one with a complement of only four with professional designations on a staff of 28, to one with 17 professionals out of a total staff of 34 in his final year. During this period, the work of the Office evolved from the detailed examination of transactions before payment (the pre-audit approach), to the more contemporary and meaningful evaluation of accounting systems and financial controls.

With increased use of computer systems in government, it became necessary to develop the competence to audit these systems. Initially, commencing in 1977, this was achieved through extensive use of computer audit specialists from the private sector. The office now possesses an in-house capability which permits an extensive audit coverage of computer-based systems.

A significant event took place in 1973, when Nova Scotia passed the Auditor General Act, becoming one of the first jurisdictions in Canada to have an Auditor General Act separate from the Finance Act. The Act provided for a degree of access, and a scope of responsibility which became a forerunner for similar legislation elsewhere.

Flowing from this enhanced mandate were various special broader scope assignments conducted by the Office in a number of crown corporations and agencies.

During this era, the calibre of staff recruited, and the performance of student auditors in their professional accounting examinations, showed marked improvement.

Interaction with other legislative auditors increased to the point where the excellent cooperation and relationships among provincial and federal auditors has been described as an informal partnership. This was more formally manifested in the formation in the early 1970's of the Canadian Conference of Legislative Auditors, and an association of Atlantic Provinces Legislative Auditors. In 1980, the Canadian Comprehensive Auditing Foundation was established. Mr. Sarty made major contributions towards fostering these affiliations.

Audits Performed

The primary responsibility of the Auditor General is mandated in Section 7 of the Auditor General Act. This requires me to examine accounts of public money received or expended by or on behalf of the Province, and to ascertain whether all public money has been fully accounted for, money has been expended for the purpose for which it was appropriated, accounts have been properly kept, and the records, rules and procedures used to safeguard and control public property are sufficient. (Section 7 is reproduced as Appendix I)

To satisfy this mandate, I review and evaluate accounting and financial systems used in recording revenues, expenditures, assets, and liabilities in government. This involves extensive audit work in all 20 departments of government, including both their regular departmental activities and their special programs and projects.

I am the appointed auditor for 32 crown corporations, boards, commissions and funds. These appointments flow from three sources — the entities' legislation, their Boards of Directors, or by Order in Council. These are listed in Appendix II. This list indicates the varied nature of the work performed by my staff on financial statement audits.

The listing in Appendix III shows the agencies of government for which I am not the appointed auditor. These are audited by private sector auditing firms. In accordance with Section 16 of the Auditor General Act, I have the right to conduct additional examinations in these agencies, as I deem necessary.

EDP Audit Involvement

Over the past few years, there has been a growing dependence on computerized systems throughout government departments and agencies. Concurrently, there has been a marked increase in the requirement by my Office to audit these computer systems, and the associated facilities which support them.

Our audits are designed to evaluate the management and use of EDP resources, and the security and controls surrounding each installation. During the past year, 11 reviews were performed, as discussed elsewhere in this report.

In addition, we make extensive use of the computer to assist in our audit routines, resulting in significant time savings and increased audit coverage. In the last year, computer assisted audit techniques were used for such purposes as the sampling of payrolls and disbursements, and the preparation of third party confirmations.

In September 1984, the Office installed a microcomputer. Since then, we have established communication links with the government's central computer, and the Department of Finance computer installation. We have also utilized our computer for a variety of in-house audit related tasks, which has provided our staff with "hands-on" exposure to computer processing.

The Office — 1984

Staffing

The approved staff complement at March 1, 1985 for the Office is 33, comprising:

Auditor General	1
Director of Audits	1
Audit Managers	2
Audit Supervisors	4
Senior Audit Officers	4
Audit Officers	13
Administrative Staff	4
Vacant	4
	33

There are 12 staff members who possess a professional accounting designation. Included in the Audit Officer category are 8 staff who are pursuing their Chartered Accountant degree.

Steps are being taken to fill the vacant positions with professionally qualified staff, in accordance with approvals recently received from Management Board.

Financial

The expenditures and recoveries of the Office for the year ended March 31, 1984, as compared with the approved estimate and the previous year's actual, are scheduled below.

	Estimate 1983-84	Actual 1983-84	Actual 1982-83
Expenditure:			
Salaries	$1,164,300	$1,122,015	$1,048,613
Other	127,000	114,232	106,690
	1,291,300	1,236,247	1,155,303
Recoveries	138,500	132,800	135,850
Net Expenditures	$1,152,800	$1,103,447	$1,019,453

Professional Development and Staff Training

A requisite attribute of a professional is the ability to remain knowledgeable of current developments related to the profession. This is accomplished through formal course offerings and seminars, training on the job, and by memberships in appropriate associations and organizations.

In July 1984, the twelfth annual meeting of the Canadian Conference of Legislative Auditors was held in Charlottetown. Attending were the Legislative Auditors of all Provinces and Canada. These meetings continued the tradition of worthwhile sessions on such topics as annual reports, computer auditing, comprehensive auditing, and public sector pension plans. Concurrently, the Chairmen of the Public Accounts Committees from the Provinces and Canada were also meeting in Charlottetown, and a joint session of both groups was held.

Several years ago the Canadian Conference of Legislative Auditors formed a Legislative Auditors' Practices Committee for the purpose of providing the professional development officers in all of our audit offices with a vehicle for regular meetings and information exchange. This effort has proven most beneficial to our Office, and we continue to support its operation.

In October 1984, we hosted in Halifax, the annual meeting of the four Atlantic Provinces Auditors General. This provided an opportunity to review matters of both an administrative and audit nature.

We continue our membership in the Canadian Comprehensive Auditing Foundation, whose conferences, publications, and courses are of real application and benefit to a legislative audit office such as ours. Staff from our Office attend their annual conferences, and we have had certain of their courses presented to our staff.

During the year, courses and seminars were attended by staff members on topics such as auditing developments and techniques, electronic data processing, and general management. We were particularly pleased to have made available to our Office, an extended course on management by the Civil Service Commission — in our efforts to provide staff with a greater understanding of the concepts of management.

APPENDICES

APPENDIX I

The Auditor General Act

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee had wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched, or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a), (b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) supply to the Auditor General annually a copy of all financial statements and reports prepared by them relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General
Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations
- Provincial Grain Commission
- Nova Scotia Crop and Livestock Insurance Commission
- Community Pastures Board

Education Institutions
- Atlantic Provinces Special Education Authority
- Technical University of Nova Scotia

Hospitals
- Camp Hill Hospital
- Cancer Treatment and Research Foundation of Nova Scotia
- Halifax Infirmary
- Nova Scotia Hospital
- Victoria General Hospital

Lending Organizations and Funds
- Housing Development Fund
- Industrial Expansion Fund
- Industrial Loan Fund
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries Development Fund
- Small Business Development Corporation

Pensions
- Members' Retiring Allowance Account
- Nova Scotia Teachers' Pension Fund
- Public Service Superannuation Fund

Regulatory Bodies
- Board of Commissioners of Public Utilities
- Nova Scotia Lottery Commission
- Public Accountants Board of the Province of Nova Scotia

Other
- Atlantic Industrial Research Institute
- Canso Superport Limited
- Clairtone Holdings Limited
- Nova Magnetics Limited
- Novaco Limited
- Nova Scotia Legal Aid Commission
- Nova Scotia Research Foundation Corporation
- Nova Scotia Talent Trust
- Public Trustee
- 107375 Holdings Limited

APPENDIX III

Audits Performed by Private Sector Auditors
Crown Corporations, Boards, Commissions, and Agencies
(not including hospitals)

Check Inns Limited

Council of Maritime Premiers

Halifax-Dartmouth Bridge Commission

Industrial Estates Limited

Municipal Finance Corporation

Nova Scotia Liquor Commission

Nova Scotia Liquor License Board

Nova Scotia Power Corporation

Nova Scotia Rehabilitation Centre Corporation

Nova Scotia Resources Limited

Sherbrooke Restoration Commission

Sydney Steel Corporation

Tidal Power Corporation

Waterfront Development Corporation Limited

Workers' Compensation Board

World Trade Centre Limited

APPENDIX IV

Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors

(a 1981 Research Study, by the
Canadian Comprehensive Auditing Foundation)

Recommendations

1. Each Public Accounts Committee prepare and adopt a formal, written statement that describes the committee's role and responsibilities.

2. The written statement of role and responsibilities comprise a general statement of purpose and a list of issues that the committee is to examine, assess, report on to the legislature, and follow up with the administration, including:

   — the reliability and appropriateness of information in the Public Accounts to provide a full and fair accounting of operations and financial transactions;

   — the collection of, and proper accounting for, all taxes and other revenues due;

   — the maintenance of expenditures within the limits and for the purposes authorized by the legislature;

   — the adequacy of safeguards to protect assets from loss, waste and misappropriation;

   — the regard for economy in the acquisition of goods and services;

   — the regard for efficiency in operations; and

   — the effectiveness of programs in achieving their stated objectives.

3. Provision be made for the automatic and permanent referral to Public Accounts Committees of both the Public Accounts and the Auditor's report as soon as they become available.

4. Public Accounts Committees recognize their capacity to investigate any matter that is within their terms of reference.

5. Ministers be called as witnesses before Public Accounts Committees only when they have been personally involved in decisions under examination.

6. Chairmen of Public Accounts Committees explain to witnesses their legal position in regard to future actions that may arise from testimony.

7. Provision be made to allow Public Accounts Committees to meet whether the House is in session, recessed or prorogued.

8. Public Accounts Committees be limited to between 5 and 11 members.

9. Public Accounts Committees be appointed for the full term of the legislature, and not session by session.

10. Chairmen of Public Accounts Committees be members of the opposition.

11. Chairmen play a leading role in all aspects of committee work and participate in the questioning of witnesses and in other committee deliberations.

12. Chairmen of Public Accounts Committees serve for the life of a legislature or until replaced.

13. Committees elect vice-chairmen from among the government members.

14. Larger Public Accounts Committees appoint a steering committee to plan the work and to bring forward drafts of committee reports.

15. Ministers not be appointed as members of Public Accounts Committees.

16. One clerk, who gives first priority to these duties, be assigned to serve the Public Accounts Committee.

17. Research assistance be provided to Public Accounts Committees.

18. Consideration be given to compensating members of Public Accounts Committees for their attendance at meetings held when the legislature is not in session.

19. Consideration be given to appropriate financial recognition for the extra work and responsibilities assumed by the chairmen of Public Accounts Committees.

20. All Public Accounts Committee meetings for hearing testimony be open to the press and public, except when evidence of a particularly sensitive nature is to be given.

21. Meetings for planning future work, briefings, reviewing progress and drafting reports be held *in camera.*

22. Public Accounts Committees plan, in general terms, the work to be undertaken at the beginning of each session, and prepare formal agendas for public distribution at least one week ahead of each meeting.

23. Committees arrange for suitable briefing material to be available to members prior to hearings, and if necessary set time aside to review it.

24. A verbatim transcript of Public Accounts Committee hearings be prepared and published promptly.

25. Committees keep brief, formal minutes of proceedings.

26. Suitable meeting space, with appropriate facilities, be available to Public Accounts Committees.

27. Public Accounts Committees schedule sufficient, regular meetings to discharge their responsibilities.

28. Provision be made for legislators who are not members of Public Accounts Committees to attend meetings and participate in the questioning of witnesses, but not to vote.

29. Procedures for questioning witnesses be adopted that permit productive lines of questioning to be taken to their conclusion and allow all members an opportunity to participate.

30. Public Accounts Committees concentrate their attention on significant issues of management and financial administration rather than on isolated, unimportant, individual transactions.

31. Public Accounts Committees prepare substantive reports at least annually containing a summary of findings, a statement of conclusions, and recommendations for action to be taken by the government.

32. Wherever possible, Public Accounts Committee reports be arrived at through a consensus of all members of the committee.

33. Legislatures set aside time to debate the reports of Public Accounts Committees at least annually.

34. Public Accounts Committees adopt an effective procedure for following up their recommendations with the administration.

35. Auditors be required by legislation to express an opinion on the financial statements and the accounting policies underlying them.

36. Legislation specifically give Auditors responsibility for reporting on the adequacy of the information provided to the legislature in the Estimates and Public Accounts.

37. The legislation establishing the mandate of Auditors specifically include an examination and reporting on value-for-money issues, including regard for economy and efficiency in operations and procedures for evaluating and reporting on the effectiveness of programs in meeting their objectives.

38. Legislation provide that Auditors accept specific assignments from their legislatures, provided these do not take precedence over other duties assigned by statute.

39. Legislation provide that Auditors accept direction by the government to perform audits only if in their opinion such work would not interfere unduly with the performance of their regular duties.

40. Auditors not be responsible for any aspect of the government's financial administration including the pre-audit of expenditures.

41. Legislation make specific provision for the confidentiality of the Auditor's working papers.

42. Auditors be given legislative authority to obtain any information or documents they require from Crown organizations or their auditors, and to conduct any further examinations that they deem necessary.

43. Given a sufficient improvement in the timeliness of completing government accounts, Auditors work toward the goal of completing their annual reports within six months after the fiscal year end, and have their opinions and comments on the financial statements incorporated in the Public Accounts.

44. Auditors' annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature.

45. The Auditor's annual report be presented to the Speaker, who shall table it in the legislature at the earliest opportunity.

46. Wherever possible and appropriate audit reports incorporate responses by the audited organizations to the Auditors' comments and recommendations.

47. Legislation provide that Auditors need not report matters that, in their opinion, are inconsequential.

48. Auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committees.

49. Statutory provision be made for Auditors to make special reports to the legislature on matters of urgency and importance.

50. Legislation clearly establish Auditors as officers of the legislature.

51. An objective, rigorous search process be used in filling a vacancy in the Auditor's position.

52. Mechanisms be devised to ensure that the individual appointed to the position of Auditor is acceptable to both government and opposition members of the legislature.

53. Statutory provision be made for filling a temporary vacancy in the office of Auditor, and such provision include safeguards to prevent interim appointments for unduly extended periods of time.

54. Auditors be appointed for a fixed, non-renewable term on no more than ten years.

55. The Auditor's salary be tied by statute to that of top public servants.

56. Provision be made for a review of the Auditor's budget by a representative group of legislators before it is presented to the House for approval.

57. Legislative provision be made for a special report to the legislature by Auditors in whose opinion the resources provided for the operation of their offices are insufficient.

58. Auditors have sufficient independence from central administrative controls to ensure that they can organize, staff and manage their offices and engage outside expertise as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

59. Legislative provision be made for an audit of the audit office, conducted by a qualified auditor who is not an employee of the Crown, with the results made available to the legislature.

60. Separate legislation be enacted dealing with the Auditor and the audit office.

61. A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the Auditor's budget for presentation to the House, for appointing and considering the reports of the Auditor's auditor, and for such other duties regarding the operation of the audit office as may be deemed appropriate.

62. Public Accounts Committees set aside time to familiarize themselves with the nature of the work and the responsibilities of the audit office, within the context of government financial administration.

63. Auditors and/or members of the audit staff attend all hearings of Public Accounts Committees to act and be used as a source of expert advice to the committees.

64. Public Accounts Committees make use of Auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

65. Auditors discuss the general subject of the format and style of their reports with Public Accounts Committees.

66. Auditors prepare their reports with the needs of Public Accounts Committees in mind.

67. Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

68. Public Accounts Committees be given the power to instruct Auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

69. Public Accounts Committees discuss with Auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

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APPENDIX V

Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors

(a 1981 Research Study, by the Canadian Comprehensive Auditing Foundation)

A Model Public Accounts Committee

The model Public Accounts Committee is a small committee, comprising 5 to 11 members, none of whom is currently a minister of the Crown, though some may be former ministers. It has a senior, fair-minded and respected member of the opposition as chairman and a member of the government party with similar qualities as vice-chairman. Serving it is an experienced clerk, who attends all meetings, and a competent researcher, both of whom give the committee first priority on their time. The chairman is given extra remuneration in recognition of the additional time taken to discharge that important responsibility, and all members are compensated for attending meetings held when the legislature is not in session and are given travel and living expenses.

Having specifically addressed the subject at one or more meetings, the model committee has a clear understanding of its role and responsibilities. It realizes that it is acting on behalf of all members of the legislature in helping to hold the government accountable for its management and control of public resources; the committee is not concerned with partisan issues or parochial constituency matters. It also accepts without question the legislature's prior decisions to approve funding at certain levels for the government's programs. Its members direct their attention to the administration of programs, not to the political policies and implications underlying them.

The committee meets frequently and regularly. While the House is in session, it meets at a set time or times each week. It also sits while the House is in recess or is prorogued, when it holds a number of consecutive, intensive sessions. Hearings, which are open to the public, are held in a room with ample space for members, witnesses, media and public. A full verbatim transcript is kept of the proceedings, as are summary minutes. Both are quickly available for public distribution.

The committee prepares carefully for each meeting. It has a steering committee that plans the committee's work well in advance and proposes an agenda for each meeting to the full committee. If the

committee is very small, this work may be done by the committee itself, sitting in executive session. Prior to each meeting, the members are briefed, either in person or in writing, on the issues to be examined, and suggested lines of questioning, developed by the researcher, are discussed. Well in advance of their appearance, witnesses are notified of the time, date, place and subject matter of the hearing, and a formal agenda, giving similar information, is sent out to all members, the media and the legislature.

The typical witness is a senior public servant, supported by officials who have detailed knowledge of the audit findings under discussion. A senior representative of the government's central financial control agency attends all hearings to answer questions of a government-wide nature that may arise. Under the chairman's direction, the questioning is courteous, detailed and without partisanship or rancour. All members of the committee have an opportunity to participate, and no productive line of questioning is cut off before reaching its conclusion. Only on rare occasions is a minister called as a witness, and then only when he or she has been directly involved in a specific decision affecting the issue under examination.

As soon as the Auditor's annual report is ready, it is automatically referred to the Public Accounts Committee whether the House is in session or not, and the committee meets with the Auditor to go over the highlights of the report. With this background and on the advice of the steering committee, it decides on the issues it will examine in depth. It also receives the Public Accounts as soon as they are available, and is briefed on the highlights of that document. In addition to issues raised by the Auditor, the committee occasionally decides to investigate some matter relating to any department or agency of government, provided public funds are involved, from the point of view of quality of the management and control of public resources.

As the committee proceeds with its work, drafts of its findings and recommendations for each issue examined are prepared by the researcher under the direction of the steering committee. Periodically the committee meets in camera to review, amend and approve the drafts while the hearings to which they relate are still fresh in the members' minds. The committee issues formal, substantive reports to the legislature at least annually. At least once a year, the legislature sets time aside to consider the report of the Public Accounts Committee and gives recognition to the work of its members and weight to the recommendations made for improvements in adminstration. The committee has established a procedure with the government for following up its

recommendations and is informed about what, if any, action has been taken. In instances where the responses are unsatisfactory to the committee, it calls the responsible public servants before it to explain and justify the response.

In all its deliberations, the model committee uses the Auditor as an expert adviser. A close relationship is forged and, with the understanding that committee members have of the audit office, its role and capabilities, they are able to make effective use of the Auditor and the audit office. The chairman and vice-chairman of the Public Accounts Committee have a particularly good, open working relationship with the Auditor.

As a result of its examinations, the calibre and impact of its reports, and the respect in which it is held, the model Public Accounts Committee is recognized to be the single most important committee of the legislature.

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APPENDIX VI

Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors

(a 1981 Research Study, by the Canadian Comprehensive Auditing Foundation)

A Model Auditor

The Model Auditor is a senior professional, respected as being both competent and fair by the members of the legislature, the cabinet and the senior public service. By statute and inclination, the Auditor is independent of the government. This independence has several aspects.

One aspect is the security of tenure provided: a fixed, non-renewable term of office and a salary tied by statute to that of other top public servants. The Auditor is an officer of the legislature and can be removed from office only for cause by a vote of the House. The name of the person nominated for this position by the government is cleared with an all-party committee of the House, and the appointment is approved by the legislature.

The Auditor is provided with substantial freedom from central government controls in the operation of the office. The audit office budget is reviewed by a committee of senior legislators rather than by a Treasury or Management Board. The government has no opportunity to alter the budget agreed to by the committee. Similarly, the audit office is not subject to central controls over staffing levels and classifications; any controls of this nature are exercised by the legislative committee. In addition, contracting for outside professional services is not subject to central agency controls. As a result, the Auditor has both the organization and the resources to fulfil the mandate laid down by statute.

The legislation establishing the Auditor and the audit office is a separate statute. It gives the Auditor powers to examine any document or person considered necessary and to conduct any examination thought appropriate. It requires the Auditor to examine and comment on the government's financial statements and accounting policies and to audit the government's operations to see that all relevant laws and regulations are being observed. In addition, the Auditor is authorized to examine the economy and efficiency with which operations are

conducted and to determine whether the effectiveness of programs is being measured and reported wherever possible. For Crown corporations or agencies for which some other auditor is appointed, the Auditor is empowered to call for any information thought necessary and to have carried out whatever additional work is needed. The audit office is subject to a full audit of its operations by an auditor appointed by and reporting to the legislative committee.

The Auditor is required to make an annual report to the legislature, and is empowered to make a special report on any urgent matter that cannot await the annual report. The annual report is prepared as the work progresses during the year and is released as soon as possible after the fiscal year end. Comments on the financial statements and accounting policies are included in the Public Accounts rather than in the annual report.

In addition to the work planned for the audit office, the Auditor also undertakes occasional assignments on request from the legislature, the Public Accounts Committee and the government. These assignments are not given priority over the regular work of the office, and requests from the government are accepted only if they will not interfere with normal duties.

The Auditor works closely with the Public Accounts Committee and, on request, briefs the committee on the work of the audit office in the context of the overall financial administration system of the government. In order to be available as a expert adviser, the Auditor, accompanied where appropriate by senior staff, attends all Public Accounts Committee meetings, briefing the committee on the annual report and on any specific issue when requested. During committee meetings, whether public hearings or in camera planning or report-writing sessions, care is taken that the Auditor's role is kept distinct from that of members, so that there will be no question of dominating the proceedings or of appearing to lose the independence of the position. In writing the annual report, the Auditor is constantly aware of the importance of that document for the work of the committee and ensures that it will be of greatest possible utility in that connection. As well as following up on the recommendations in the annual reports, the Auditor advises the committee on the most effective way of following up their recommendations and assists them if asked.

The model Auditor and the chairman and the vice-chairman of the model Public Accounts Committee form a close working relationship, recognizing that they share important mutual objectives. The result of

their individual and joint efforts is that a number of weaknesses in the system of management are disclosed, discussed and corrected, and the people living in the jurisdiction are given assurance that the government is being held accountable for the way that it manages public resources.

The recommendations in this report, based on existing practices, are offered to help each Canadian legislature build such a model system.

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